AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

OCTOBER 2016

AUDITOR GENERAL
Alberta

Mr. David Shepherd, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—October 2016* to Members of the Legislative Assembly of Alberta, as required by Section 19(5) of the *Auditor General Act*.

[Original Signed by Merwan N. Saher FCPA, FCA]
Auditor General

Edmonton, Alberta
October 21, 2016

AUDITOR GENERAL
Alberta

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AUDITOR GENERAL
Alberta

Auditor General's Message and Recommendations

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

Auditor General's Message

Good oversight will ensure that resources are managed effectively and desired results are achieved. In pursuit of desired results, those with oversight responsibility—legislators, ministers, deputy ministers, boards and managers—must be vigilant and check that processes and systems, including accountability for results systems, are working well.

The purpose of a legislative audit office is to identify opportunities to improve the performance of and confidence in the public service. This purpose is why the *Auditor General Act* requires us to report when we find the government has inadequate:

- systems to ensure economy and efficiency; or
- procedures to measure and report on the effectiveness its programs.

Such reporting contributes to management's efforts to reduce waste.

We are the auditor of every ministry, department, regulated fund and most provincial agencies; in all, 146 entities for 2016. In this report are the results of several stand-alone systems (performance) audits done earlier this year. These audit reports start at page 21. As a by-product of our financial statement audits, we make recommendations to management if we find that an organization could improve its systems in areas such as governance and accountability for results, internal control over financial management, information technology or performance reporting. Our reporting of this work begins on page 61.

The following audits are of particular interest.

Advanced Education—Athabasca University—IT Resumption (page 65)

Athabasca University relies heavily on its IT systems and infrastructure to deliver online student services, including course materials and course evaluations as well as daily corporate financial activities. Failure to recover promptly from a disaster affecting the data centre at the main campus in Athabasca would affect the university's ability to continue providing these services.

In 2010 we recommended that Athabasca University improve its information technology resumption capabilities—assessing the risks and establishing off-site disaster recovery facilities, and completing and testing its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster. We repeated our concerns and recommendation in 2013.

Six years later, the university has still not implemented our recommendation and appears incapable of doing so.

Agriculture and Forestry—Agriculture Financial Services Corporation (pages 21 and 73)

The *Agriculture Financial Services Act* gives the Agriculture Financial Services Corporation (AFSC) a broad lending mandate. The Act allows AFSC to offer agriculture development loans and certain non-agriculture loans. We found weaknesses in the oversight of AFSC's lending program. The department did not formally communicate to AFSC or document its performance expectations of the program. AFSC's former board of directors did not ensure that AFSC has adequate systems to monitor and measure the program's performance and its risks.

In our financial statement audit for the year ended March 31, 2016, we identified certain transactions involving a former vice president (who resigned in June 2015) that did not comply with AFSC's established policies. The president and vice president entered into agreements that either did not comply with the corporation's policies or did not have adequate legal and financial review. Training resources were wasted, and AFSC incurred unnecessary expenses as a result. AFSC's board did not receive sufficient information on senior executives' expenses to be able to provide proper oversight.

In June 2016, the minister dismissed AFSC's board of directors and replaced it with an interim board. Once appointed, the new board should work with the Department of Agriculture and Forestry to clearly define the oversight roles and responsibilities of both parties.

Executive Council—Contracting Processes Follow-up (page 53)

In October 2014 we reported the results of our audit of the Department of Executive Council's systems to manage contracts. We made a recommendation to the department to strengthen its processes around sole-sourced contracts. This year we followed up. We found the department must continue to strengthen its processes and comply with its contracting policy. Specifically, the department must ensure that support for contracting decisions and the reasonability of contract rates is documented and on file, and that contracts are authorized before services are received.

Human Services—Assured Income for the Severely Handicapped Program (page 31)

The AISH program serves over 50,000 Albertans by providing almost $1 billion in benefits annually. It is the second largest program Human Services delivers, administered by approximately 330 staff and having an annual operating cost of $33 million.

We examined the department's systems and processes for ensuring the program is easily accessible to eligible Albertans and how it applies clearly defined criteria in compliance with legislation and policy when making eligibility decisions. Our audit included the application process and various systems in place around eligibility decisions. We also examined the department's systems to measure, monitor and report on key activities of the program.

We concluded the Department of Human Services is unable to demonstrate that the AISH program is efficient. The AISH application process favours people who are good at completing forms and are persistent. Assessing eligibility takes too long, and the department cannot be sure its staff's decisions are consistent. With its existing reporting process, the department does not know what it needs to change to improve the program.

Financial reporting processes

As discussed in the Advanced Education section on page 63, four universities have sustained effective processes to promptly prepare accurate financial statements. Sustaining strong financial reporting systems increases opportunities to use results analyses to better communicate the universities' performance and accountability for results.

In contrast, we draw the attention of the all-party Standing Committee on Public Accounts to three entities we have audited and concluded require focused attention on improving their financial reporting processes. It is our responsibility to identify weaknesses, but it is management's responsibility to put in place economic, efficient and effective financial management and internal control systems so as to minimize the cost of preparing and auditing financial information.

Culture and Tourism (page 81)—The department needs a consistent and effective process to assess the appropriate accounting treatment and legal implications of transactions that do not occur regularly.

Economic Development and Trade (page 85)—The department needs to improve its internal controls and quality review processes to ensure timely and accurate financial reporting.

Indigenous Relations (page 125)—For the third time, we have had to recommend that the department ensure its estimates are reasonable and properly supported.

Outstanding recommendations summary (page 17)

The payback on Albertans' investment of audit dollars in our producing recommendations for improvement in the performance of and confidence in the public service is our confirmation through follow-up auditing that recommendations are implemented and substantial change has occurred.

We acknowledge the accomplishment of the managers who have implemented 27 of our recommendations in the last year. We also acknowledge the monitoring of the implementation of our recommendations by the Standing Committee on Public Accounts and its requests for status updates from departments and agencies.

The two ministries with the largest number of outstanding recommendations more than three years old and not ready for a follow-up audit are Environment and Parks, and Health.

October 2016 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

This report contains 14 new and four repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations. We also confirm in this report that 13 prior recommendations have been implemented.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

The auditor general is the auditor of every ministry, department and regulated fund, and most provincial agencies. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operator of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly, given the delegated operational responsibilities and that they are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the oversight and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- **Implemented**—We explain how the government implemented the recommendation.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.

SYSTEMS AUDITING—NEW AUDITS

Agriculture and Forestry—Agriculture Financial Services Corporation —Systems to Manage the Lending Program

Page 23

RECOMMENDATION 1: DEFINE STRATEGIC OBJECTIVES, ARTICULATE SECTOR CREDIT NEEDS AND RE-EVALUATE THE RELEVANCE OF THE LENDING PROGRAM

We recommend that the Agriculture Financial Services Corporation:

- clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate
- clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities
- develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a clear definition of the purpose of the lending program and its strategic objective, AFSC's lending activities could easily deviate from its development focus and replicate what other commercial lenders provide, rendering the lending program ineffective.

Page 25

RECOMMENDATION 2: DEFINE OVERSIGHT RESPONSIBILITIES

We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of proper oversight, Albertans cannot be assured that AFSC is delivering the results expected from its lending program.

Page 29

RECOMMENDATION 3: DEVELOP A FUNDING MODEL AND COSTING SYSTEM

We recommend that the Agriculture Financial Services Corporation:

- develop a product-specific government funding model
- develop a costing system capable of allocating, tracking and reporting product-specific costs

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of a clear funding model, the accountability framework and the sustainability of the lending program are hampered.

Page 29

RECOMMENDATION 4: MONITOR THE PERFORMANCE OF THE LOAN PORTFOLIO

We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without an independent loan review function, AFSC lacks a key monitoring control for its loan portfolio.

Human Services—Systems to Manage the Assured Income for the Severely Handicapped (AISH) Program

Page 35

RECOMMENDATION 5: IMPROVE PROGRAM ACCESSIBILITY

We recommend that the Department of Human Services ensure its application processes are user friendly.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not improve its application process for the AISH program, Albertans with a severe disability will continue to have difficulty accessing the program and may not receive the supports they need.

Page 38

RECOMMENDATION 6: SET SERVICE STANDARDS AND IMPROVE ELIGIBILITY PROCEDURES AND GUIDELINES

We recommend that the Department of Human Services:

- set service standards for application processing times and regularly monitor against these standards
- improve procedures and guidelines to ensure staff apply policy in a consistent manner

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Eligible Albertans may not be able to support themselves and may face unnecessary hardship while waiting for benefits. In addition, there is the potential that denied applicants are eligible and should be receiving benefits.

Page 42

RECOMMENDATION 7: IMPROVE REPORTING ON EFFICIENCY

We recommend that the Department of Human Services improve its processes to measure, monitor and report on the efficiency of the AISH program.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of robust measuring, monitoring and results analysis reporting, management will not have adequate information to analyze performance and make required improvements to the program. In addition, management and stakeholders will not receive enough information to assess whether the program is achieving its desired results.

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Executive Council—Contracting Processes Follow-up

Page 55

RECOMMENDATION 8: IMPROVE CONTRACTING PROCESSES—REPEATED

We again recommend that the Department of Executive Council improve its contracting processes by documenting:

- the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without strong processes in place to manage contracting, the department is at risk of not receiving the best value for money.

FINANCIAL STATEMENT AUDITS

Advanced Education—Athabasca University

Page 66

RECOMMENDATION 9: ESTABLISH INFORMATION TECHNOLOGY RESUMPTION CAPABILITIES—REPEATED

We again recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a functional disaster recovery plan and appropriate recovery facilities and equipment, the university will not be able to systematically recover data or resume critical business and student services within the required time frames.

Page 67

RECOMMENDATION 10: IMPROVE PROCEDURES TO MONITOR AND REPORT ACCESS AND SECURITY VIOLATIONS—REPEATED

We again recommend that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Failure to actively monitor access and security violations allows an intruder to probe for weaknesses or entry points to the university's financial information systems. Access and security violations would go undetected or not be properly dealt with, causing security threats to the university's financial applications and information resources.

Agriculture and Forestry—Agriculture Financial Services Corporation

Page 75

RECOMMENDATION 11: ENSURE COMPLIANCE WITH ESTABLISHED POLICIES

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that do not comply with AFSC's policies

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of adequate review and approval processes of agreements with its employees, AFSC may not be able to enforce the terms of its agreements and protect its rights. The corporation may pay for expenses that have no business purpose.

Page 79

RECOMMENDATION 12: STRENGTHEN PROCESSES TO REPORT SENIOR EXECUTIVES' EXPENSES TO THE BOARD OF DIRECTORS

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective oversight processes, AFSC is exposed to increased financial and reputational risk. Further, the board won't have the information necessary to consider and potentially challenge expenses that may not be appropriate.

Culture and Tourism

Page 81

RECOMMENDATION 13: IMPROVE FINANCIAL STATEMENT PREPARATION PROCESSES

We recommend that the Department of Culture and Tourism improve its financial statement preparation processes for transactions that do not occur regularly.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Transactions that do not occur regularly are inherently risky. Without an appropriate analysis and assessment of such transactions, there is a risk that financial statements are materially misstated and misleading.

Economic Development and Trade

Page 85

RECOMMENDATION 14: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Economic Development and Trade improve its internal controls and quality review processes to ensure prompt preparation of accurate financial reporting.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective financial reporting processes, management risks making critical operating decisions based on inaccurate financial information.

Economic Development and Trade (cont'd.)

Page 86

RECOMMENDATION 15: ASSESS INVESTMENT IMPAIRMENT LOSSES

We recommend that the Alberta Enterprise Corporation develop and implement policies and procedures to assess investment impairment losses.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without adequate policies and processes to identify and account for impairments in investment value, management risks making decisions based on inaccurate financial information.

Energy

Page 99

RECOMMENDATION 16: IMPROVE CONTROLS OVER ACCESS TO KEY BUSINESS SYSTEMS

We recommend that the Department of Energy document conflicting roles within its key business systems and ensure appropriate controls are in place where conflicting roles are identified

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not identify the conflicting roles in its key business systems and ensure that there are controls in place to reduce the risk from conflicting roles to an acceptable level, users of business systems could manipulate data and impair its integrity, either by intent or error. Impairing data in this way can have a material impact on the department.

Environment and Parks

Page 104

RECOMMENDATION 17: IMPROVE CAPITAL ASSET MONITORING AND RECORDING PROCESSES

We recommend that the Department of Environment and Parks improve its processes for monitoring and recording dam and water management structure assets by:

- reconciling the Environment Infrastructure Management System with the asset management accounting system so that the assets listed in one reasonably correspond to those in the other
- completing a comprehensive analysis of assets to verify existence, completeness and valuation in order to maintain reliable accounting records
- applying criteria to decide when to write down an asset, and documenting the assessment of such decisions

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective monitoring and recording processes, the department cannot accurately report the book value of assets in its financial statements. If the department does not make the improvements we recommend, there will continue to be an increased risk that the financial statements will have material misstatements in relation to capital assets.

Indigenous Relations

Page 125

RECOMMENDATION 18: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

We again recommend that the Department of Indigenous Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Regardless of the complexity of the estimate to be made, management risks making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. Estimates are often material to the decision making processes used in the ministry's financial reporting.

Outstanding Recommendations Summary

We include a list of outstanding recommendations for a ministry, and the entities that report to it, at the end of each ministry chapter in this report. The list begins with the first ministry on page 61. We list outstanding recommendations under the entity that is responsible for their implementation.

These recommendations include the following categories:

- **Numbered**—These require a formal public response from the government. When implemented, these recommendations will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or oversight and ethics processes in government.
- **Unnumbered**[1]—In previous reports some recommendations were unnumbered; although important, these recommendations do not require a formal public response from government.

Each list has two parts, indicating where management has informed us that either:

- the recommendation is still being implemented and is not ready for a follow-up audit, or
- the recommendation has been implemented and is ready for a follow-up audit

The payback on the investment of audit dollars in producing a recommendation is the follow-up audit that confirms that substantial change has taken place.

At the date of this report, we have 176 outstanding recommendations. The government and the Office of the Auditor General must continue to focus on reducing the number of older recommendations.

	>3 Years	<3 Years	Total
Ready for follow-up audits	10	17	27
Not yet ready for follow-up audits	45	104	149
Total	**55**	**121**	**176**

Since October 2015, we have made 43 new recommendations and reported that 27 have been implemented.

Report	Implemented	New	Total
As of October 2015			160
February 2016	11	15	164
April 2016	0	9	173
July 2016	3	2	172
July 2016 Human Services	0	3	175
October 2016	13	14	176
	27	**43**	

The reports that contain these recommendations are on our website at www.oag.ab.ca.

[1] We no longer issue unnumbered recommendations. All recommendations require a government response.

AUDITOR GENERAL
Alberta

Stand-alone Systems Auditing—New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

Agriculture and Forestry—Agriculture Financial Services Corporation—Systems to Manage the Lending Program

SUMMARY

The *Agriculture Financial Services Act* gives Agriculture Financial Services Corporation a broad lending mandate. The Act allows AFSC to offer agriculture development loans and certain non-agriculture loans.

AFSC, with its lending program, serves approximately 12,000 customers through its 46 offices located across the province and supports primary agriculture producers, such as farmers, as well as commercial businesses and agribusinesses in Alberta. As at March 31, 2016, AFSC had approximately $2.16 billion in loans to Albertans and Alberta businesses.

What we examined

We examined AFSC's systems to manage, monitor and measure the performance of its lending program. In our audit, we set out to answer three questions:

- Has AFSC clearly defined the objectives of its lending program?
- Is there proper oversight of the lending program to ensure it is delivering the desired results?
- How is the lending program funded, and how much does it cost Albertans?

Overall conclusion

While the lending program has, for many years, provided a source of capital to agriculture producers and agribusinesses in Alberta, it lacks strategic direction. Without clearly defined strategic objectives, AFSC's lending activities could easily deviate from its development focus and replicate what other commercial lenders provide, rendering the lending program ineffective.

There are weaknesses in the oversight of the lending program. The department did not formally communicate to AFSC or document its performance expectations of the program. The former board of directors did not ensure that AFSC had adequate systems to monitor and measure the program's performance and manage the risks one would expect in a lending institution.

AFSC has adequate procedures and controls for its day-to-day credit administration activities, which include loan disbursement, loan processing and collection, collateral documentation and interest calculation.

What we found

Strategic objectives of the program

AFSC has not clearly defined the strategic objectives for its lending program and has not carried out an in-depth analysis to identify the sectors that are underserved by other lenders so that it can focus its lending activities to help those sectors.

Oversight of the program

The department's and the board's oversight roles and responsibilities in relation to the lending program are not clearly defined and documented.

The department did not formally communicate its expectations of the program's performance to AFSC, and AFSC's former board of directors did not exercise proper oversight in terms of monitoring the program's performance and managing the risks associated with the program.

In June 2016, the minister dismissed AFSC's board of directors and replaced it with an interim board. There will be an opportunity for the new board, once appointed, to work with the Department of Agriculture and Forestry to clearly define the oversight roles and responsibilities of both parties.

Program funding model

At present, AFSC receives an annual contribution from the department to fund the gap between budgeted revenues and budgeted expenses of the lending program. Under this funding model, there is no need or incentive for AFSC to accurately track and report the cost of its individual lending products. As a result, the government does not have sufficient information about what its contribution is used for.

What needs to be done

The Department of Agriculture and Forestry and Agriculture Financial Services Corporation should work together to:

- define the strategic objectives of the lending program
- define the oversight responsibilities of both parties in relation to the lending program
- develop a funding model that promotes accountability for the results of the program

Why this is important to Albertans

Thousands of Albertans rely on AFSC for capital to grow their businesses. If AFSC does not manage its lending program effectively, there is a risk that the program will not sufficiently support the agriculture sector, which may suffer as a result.

AUDIT OBJECTIVE AND SCOPE

The objective of this systems audit was to assess whether AFSC has clearly defined the objectives of its lending program and has systems and processes in place to effectively manage, monitor and measure the performance of the program.

We conducted our field work between October 2015 and April 2016 and substantially completed our audit on May 16, 2016. Our work was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

The Alberta Agriculture Development Corporation was created in 1972 and was designed to provide financial assistance to improve the quality of Alberta rural life. The corporation was in operation from 1972 to 1993.

In 1993 the Alberta Agriculture Development Corporation merged with the Alberta Hail and Crop Insurance Corporation and under new legislation formed the Agriculture Financial Services Corporation.

The Alberta Opportunity Company was founded in 1972 and merged into AFSC in 2002. The company provided financial and management assistance to qualified small and medium-sized Alberta businesses that were unable to borrow with reasonable terms from other commercial lenders.

AFSC's lending portfolio has nearly doubled over the last 10 years, growing from $1.01 billion in 2007 to $2.16 billion in 2016, with an accumulated surplus of $18.6 million at March 31, 2016. The following table shows the breakdown of the loan portfolio at March 31, 2016:

LENDING PRODUCT	BALANCE IN THOUSANDS
Farm loans	$1,770,247
Commercial loans	391,219
TOTAL	**$2,161,466**

FINDINGS AND RECOMMENDATIONS

Lack of a clearly defined strategic direction for the lending program

BACKGROUND

Strategic objectives are the steps and accomplishments that an organization completes to achieve its ultimate goal. These objectives help shape and guide what an organization is, what it does and why it does it.

RECOMMENDATION 1: DEFINE STRATEGIC OBJECTIVES, ARTICULATE SECTOR CREDIT NEEDS AND RE-EVALUATE THE RELEVANCE OF THE LENDING PROGRAM

We recommend that the Agriculture Financial Services Corporation:

- clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate
- clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities
- develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant

CRITERIA: THE STANDARDS FOR OUR AUDIT

- the lending program should have a clearly defined purpose and strategic objectives
- AFSC should offer lending products that are driven by well-defined agriculture and rural development needs identified through sound analysis

OUR AUDIT FINDINGS

KEY FINDINGS

- AFSC has not clearly defined the strategic objectives for its lending program.
- AFSC has not clearly articulated the credit needs of Alberta's agriculture sector.
- AFSC does not have processes to re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant within a changing environment.

Absence of clearly defined strategic objectives for the lending program

AFSC has not developed clear and specific strategic objectives for its lending program that will shape and guide what lending activities AFSC should undertake.

For the fiscal year 2015–2016, management has set growth targets for the lending products that AFSC offers. In addition, management has set a market share target of 10 per cent of agriculture lending in Alberta within three years.

Growth targets better suit commercial lenders seeking to expand the size and market share of their portfolios. The targets that AFSC has set have little relevance to agriculture development, economic growth or the diversification objectives included in the *Agriculture Financial Services Act*.

The credit needs of the agriculture sector are not clearly articulated

Crown corporations are typically established to resolve a market failure such as a lack of credit for certain businesses or sectors of the economy.

AFSC has not carried out an in-depth analysis to identify the sectors that are underserved by commercial lenders and need encouragement to promote economic development.

The documents that management provided us lacked the following:

- a current state analysis of agriculture lending in Alberta
- roles played by other provincial Crown corporations, such as ATB Financial
- agriculture lending products offered by commercial lenders
- benchmarking of AFSC's lending products against those offered by other lenders to identify gaps and redundancies
- competitive advantages that AFSC has that other lenders do not
- AFSC's limitations given its size and organizational capacity

No systems to periodically re-evaluate the relevance of the lending products

The lending program started in 1972 under AFSC's predecessor companies under substantially different market conditions from today. We noted that AFSC does not have systems to assess how the following changes affect its lending program strategies and product offerings:

- an extended period of low interest rates
- development of insurance programs and other business risk management tools
- an increase in farmland values
- availability of credit through commercial banks and other provincial and federal Crown corporations
- provincial and federal legislation
- industry development

These and other market changes could have a significant impact on the ability of AFSC's lending program to meet the changing needs of the agriculture sector.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a clear definition of the purpose of the lending program and its strategic objectives, AFSC's lending activities could easily deviate from its development focus and replicate what other commercial lenders provide, rendering the lending program ineffective.

Department and board oversight of the lending program

BACKGROUND

Oversight is the job of being vigilant, checking that processes and systems, including accountability for results, are working well and signalling preferred behaviour, all in pursuit of desired results.

Oversight responsibilities for Crown corporations do not all rest with a single body. Instead, they are distributed at different levels. For AFSC, oversight responsibilities are shared between:

- the board of directors, which has oversight of AFSC's activities and management
- the responsible minister, who has oversight of the board of directors

AFSC is not a regulated financial services company like federally-regulated, deposit-taking financial institutions that are subject to the supervision of the Office of the Superintendent of Financial Institutions. Nor is it a provincially regulated institution like ATB Financial and Alberta-based credit unions.

Having a robust oversight framework is crucial to any financial institution, and even more so in the absence of external regulatory oversight, as in AFSC's situation.

RECOMMENDATION 2: DEFINE OVERSIGHT RESPONSIBILITIES

We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.

CRITERIA: THE STANDARDS FOR OUR AUDIT

- oversight responsibilities should be clearly defined and documented
- oversight bodies (the board of directors and the department) are expected to play their respective roles without participating in AFSC's day-to-day management

OUR AUDIT FINDINGS

KEY FINDINGS

- The Department of Agriculture and Forestry did not formally communicate its performance expectations for the lending program to AFSC.
- The former board of directors did not exercise adequate oversight of the lending program in terms of monitoring the performance of and managing the risks associated with the lending program.

Department's oversight

Under the *Alberta Public Agencies Governance Act*, the minister is expected to participate in setting the public agency's long-term objectives and its short-term targets. Further, under Alberta's Public Agencies Governance Framework, the Mandate and Roles Documents, which are jointly prepared between the minister and the board's chair, should outline the goals and performance expectations of the minister.

In the documents we examined, which included the Mandate and Roles Document and the Memorandum of Understanding between the department and AFSC, we found there was no specific

communication or consultation on the strategic objectives and the performance expectations for the lending program.

Without clear and agreed upon performance expectations, it can be difficult for AFSC to align its lending activities with the department's strategic direction. Further, it is even more difficult for the department to hold AFSC accountable for achieving targets if there is a lack of clarity around those targets and the associated timelines.

Former board of directors' oversight

The former board of directors did not exercise proper oversight of the lending program in various oversight aspects, namely defining its information needs, monitoring the performance of the program and managing the risks inherent in lending activities.

Information needs

The board did not define the information it needs to provide adequate oversight of the lending program.

Both the board risk committee and the audit committee received periodic reports on the lending program, including information on portfolio composition, level of arrears, and loan loss provisions and methodologies. However, management's reporting lacked the following important information:

- loan portfolio trend analysis
- costs of individual lending products
- analysis of loans originated by other lenders
- analysis of high-risk products, customers or industries
- significant concentrations, including industry, geographic and product concentrations
- risk management reports
- statistics on renegotiated and restructured loans
- stress test results

Review of these reports can help the board identify trends and patterns early and to critically assess and challenge management decisions.

Performance monitoring

The board did not ensure that management developed sound performance measures to assess if the lending program was meeting its objectives.

The lending program's 2015–2016 performance measures proposed by management and approved by the board covered the following areas:

- transaction turnaround time
- loan balances in arrears
- growth in annual lending volumes
- growth in AFSC's market share in agriculture lending

We noted the following with regard to the measures that AFSC has set:

- they were not developed through a structured performance measurement framework that links the resources used by AFSC to the strategic results of the lending program
- they are focused on tasks and activities rather than on results
- they do not cover the full scope of the lending program's objectives

Risk management

The board did not ensure that AFSC has systems to manage the various risks inherent in its lending program.

AFSC does not have a risk management system to identify, rank, mitigate and report risks that could impede it in achieving its strategic objectives. Also, AFSC does not have a risk officer responsible for overseeing risk management.

AFSC does not have an internal credit risk rating system that allows management and the board to monitor the quality of its loan portfolio, identify trends in risk levels and proactively manage credit risk.

AFSC has various risk mitigation controls at the transaction level and recently allocated resources to identify and manage operational risks. However, given the risks associated with its different programs, including lending, we believe that these procedures are inadequate to manage the risks that AFSC is exposed to.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of proper oversight, Albertans cannot be assured that AFSC is delivering the results expected from its lending program.

Government funding model

BACKGROUND

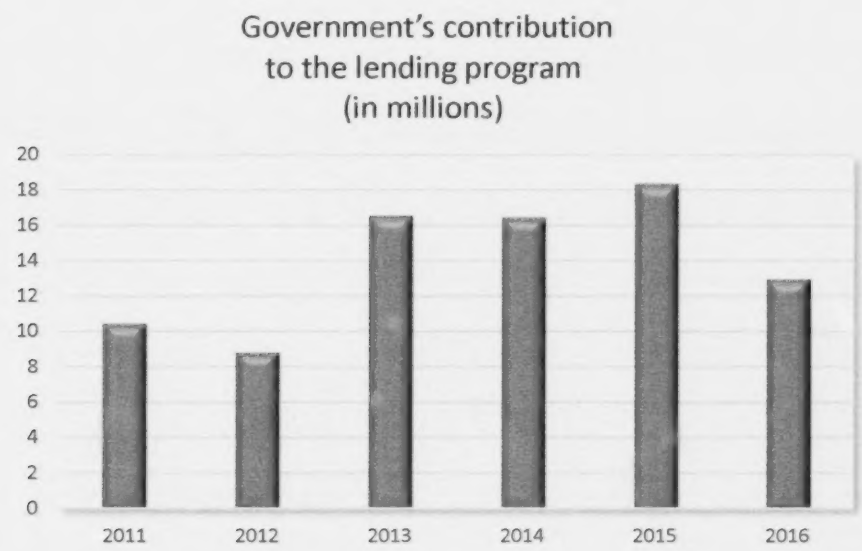
At present, the government provides AFSC with an annual contribution based on the gap between budgeted revenues and expenses of the lending program.

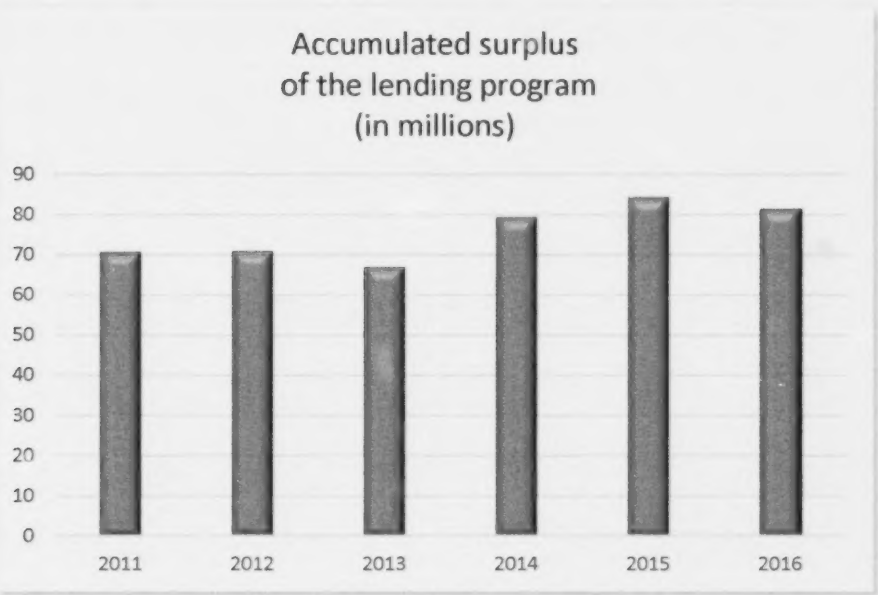
Budgeted revenues include budgeted interest revenue and fees, and budgeted expenses include administration costs (direct and indirect), borrowing costs and estimated provision for loan losses. A significant part of the gap between expected revenues and expenses is attributable to the Beginning Farmer Incentive[1] and costs associated with disaster assistance lending.

Over the years, the lending program has accumulated a surplus primarily because of the difference between actual contributed funding and actual results.

[1] The Beginning Farmer Incentive is a 1.5 per cent rate reduction for the first five years of the loan, up to $500,000.

The following two charts show the government's yearly contribution and the accumulated surplus from the lending program from 2011.





RECOMMENDATION 3: DEVELOP A FUNDING MODEL AND COSTING SYSTEM

We recommend that the Agriculture Financial Services Corporation:

- develop a product-specific government funding model
- develop a costing system capable of allocating, tracking and reporting product-specific costs

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC should have:

- a clear funding model that explains which expenses are funded by the government
- a costing system capable of accounting for and reporting product-specific costs

OUR AUDIT FINDINGS

KEY FINDINGS

- The current funding model does not promote accountability for results.
- AFSC does not have a system to track the costs associated with individual lending products.

Under the existing funding model, there is no need or incentive for AFSC to accurately track and report the cost of its individual lending products. As a result, the government does not have sufficient information about what its contribution is used for.

This funding model weakens the accountability relationship between the department and AFSC and makes it difficult for the department to carry out a meaningful cost-benefit analysis to assess if the benefits derived from a specific lending product or initiative exceed what that product or initiative costs Albertans.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of a clear funding model, the accountability framework and the sustainability of the lending program are hampered.

Absence of an independent function to monitor the loan portfolio

BACKGROUND

The loan portfolio review function assesses whether the credit policy provides adequate guidance for lending activities, determines whether account officers are following loan policy, and provides independent reporting to senior management and the board on the quality of the loan portfolio.

To provide an objective assessment, the loan portfolio review function should be independent of the loan approval process.

RECOMMENDATION 4: MONITOR THE PERFORMANCE OF THE LOAN PORTFOLIO

We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC should have an independent function that ensures compliance with established credit policies and procedures, monitors the quality of the loan portfolio, and reports to senior management and the board.

OUR AUDIT FINDINGS

KEY FINDING

AFSC does not have a function independent of the loan approval process to monitor the performance and quality of the loan portfolio.

Currently the credit solutions group at AFSC monitors the activities of credit specialists and compliance with credit policy and procedures. While we consider this monitoring a key control for day-to-day transactions, all people involved in this process are part of the loan approval process and therefore lack the level of objectivity that comes from an independent review.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without an independent loan review function, AFSC lacks a key monitoring control for its loan portfolio.

Human Services—Systems to Manage the Assured Income for the Severely Handicapped (AISH) Program

SUMMARY

A disability, whether physical or cognitive or due to a mental health diagnosis, can prevent someone from earning a living. The Assured Income for the Severely Handicapped (AISH) program exists to help Albertans with disabilities support themselves and their families.

Run by the Department of Human Services, AISH provides eligible applicants with financial and health benefits. The main financial benefit is a monthly living allowance of up to $1,588, although there are also other benefits available, such as support for childcare and children's education.

Applicants demonstrate their eligibility by submitting an application form and supporting documents. The application form and accompanying medical form ask about the applicant's financial circumstances and disability, which are the main factors the department considers in determining eligibility and level of benefits under AISH.

The AISH program serves over 50,000 Albertans by providing almost $1 billion in benefits annually. It is the second largest program Human Services delivers, administered by approximately 330 staff and having an annual operating cost of $33 million.

What we examined

We examined the department's systems and processes for ensuring the program is easily accessible to eligible Albertans and how it applies clearly defined criteria in compliance with legislation and policy when making eligibility decisions.

We looked at the entire application process, starting with the application form, channels of connecting an applicant to the program, and the intake process. We examined the various systems related to initial eligibility decisions, from the department's systems to monitor the processing of applications to the systems that impact initial eligibility decisions.

We also examined the department's systems to measure, monitor and report on key activities of the program.

Overall conclusion

The department is unable to demonstrate that the AISH program is efficient. The AISH application process favours people who are good at completing forms and are persistent. Assessing eligibility takes too long, and the department cannot be sure its staff's decisions are consistent. With its existing reporting process, the department does not know what it needs to change to improve the program.

What we found

Our findings fall into three areas:

i) Accessibility
- access to the AISH program through the existing intake process is complex and is not supported by user-friendly guidance and resources

ii) Eligibility
- the department does not have standards to regularly monitor its application processing times against
- AISH workers have to use considerable judgment in their assessment of applications and receive inadequate training and guidance
- the department treats applicants and clients differently in respect to "earning a livelihood"[1]

iii) Reporting
- the department has inadequate performance measures and processes to monitor and report on the operating efficiency of the AISH program

What needs to be done

The department should:
- ensure its application processes are user friendly
- set service standards for application processing times and regularly monitor against these standards
- improve procedures and guidelines to ensure staff apply policy in a consistent manner
- improve its processes to measure, monitor and report on the efficiency of the AISH program

Why this is important to Albertans

When someone has a disability that limits their ability to work, they need income to meet their basic needs. If the department does not have systems to ensure AISH workers consider applications in a consistent and timely manner, there is a risk that the people who need support do not receive it, or receive it too late.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine whether the department could demonstrate:
- services provided are accessible to eligible Albertans with disabilities
- eligibility decisions are timely and align with program objectives
- the program is efficient

We interviewed staff, conducted surveys, and reviewed records, data and reporting to understand the following key activities of the AISH program:
- accessibility
- initial eligibility assessment
- measuring, monitoring and reporting

[1] The AISH policy defines "earning a livelihood" as follows: "Applicants and clients must seek or accept reasonable employment for reasonable wages, within their ability. Earning a livelihood means being employed a minimum of 30 hours per week at a reasonable wage. Reasonable wage means minimum wage or a wage agreed to under a permit for employment for persons with disabilities."

We did not test the department's systems and processes for assessing ongoing eligibility requirements or efforts made under the Human Services integrated service delivery model.

We conducted our field work from February to August 2016 and examined records and activities for the period between January 1, 2014 and June 30, 2016. We substantially completed our audit on September 6, 2016. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

Ministry of Human Services

The 2016–2019 Business Plan of the Ministry of Human Services states that the ministry exists "to improve quality of life for all Albertans by ensuring that all Albertans have the resources and skills to optimize their quality of life, that they are protected and safe in their homes and communities and that they are enabled and empowered to be successful."[2]

AISH program

The Ministry of Human Services provides services and supports for adults with disabilities, including the AISH program. The program is governed by the following legislation:

- *Assured Income for the Severely Handicapped Act*
- *Assured Income for the Severely Handicapped General Regulation*
- *Applications and Appeals (Ministerial) Regulation*

AISH provides financial assistance to adult Albertans with a permanent disability that substantially limits their ability to earn a livelihood. Applicants who meet financial and medical thresholds may receive a monthly living allowance, a child benefit, health benefits and personal benefits. The objective of the program is to provide financial benefits to assist clients with their living needs and with living as independently as possible. Personal benefits help AISH clients with extra monthly or one-time expenses.

Outcome two of the 2016–2019 Human Services Business Plan is: "Albertans receive higher quality programs and services that are more coordinated, seamless and tailored to their needs to maximize their potential." Of the key strategies for achieving outcome two, the following is applicable to the AISH program:[2]

- 2.5: Through evaluation, quality assurance and performance management, promote effectiveness, accountability and transparency of Human Services programs and services.

Human Services Internal Audit (HSIA) regularly reviews the AISH program and provides internal audit reports to the executive team. The 2015–2016 internal audit plan has two AISH compliance audits scheduled: appeals and annual audit of client files.

In 2005, the MLA AISH Review Committee released a final report with recommendations for renewing the AISH program. The committee made recommendations after receiving and reviewing input from over 18,000 Albertans, including over 10,000 AISH clients. Recommendations related to accessibility included:[3]

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[2] Ministry of Human Services 2016–19 Business Plan, http://finance.alberta.ca/publications/budget/budget2016/human-services.pdf.

[3] Renewing AISH: Report and Recommendations of the MLA AISH Review Committee, February 2005.

- AISH staff meet with clients periodically to identify supports and services to assist clients in moving toward independence
- improve client service delivery, including streamlining the application process
- partner with disability organizations to provide ongoing training for AISH staff
- work collaboratively with partners to better coordinate government supports and services for persons with disabilities

The government accepted the MLAs' recommendations and in May 2007 responded by publicly reporting[4] some but not all of the recommendations that resulted in changes made to the program.

AISH benefits

Eligible clients may receive the following benefits:

- a maximum monthly living allowance of $1,588, or for clients who live in a facility (for example, a nursing home) a maximum monthly modified allowance consisting of an accommodation rate plus a maximum personal allowance of $315
- health benefits for themselves, a cohabiting partner and dependent children, including dental, optical, prescription drugs, essential diabetic supplies, emergency ambulance services and exemption from the Alberta Aids to Daily Living co-pay fee
- specific one-time or ongoing expenses over and above the monthly living allowance or modified living allowance

Human Services delivery integration

The Department of Human Services is moving toward a common integrated service delivery model for some of its programs, including AISH. This new plan will see common access to Human Services programs to better connect Albertans to services they need, whether they are accessing services in-person, over the phone or online.

FINDINGS AND RECOMMENDATIONS

Accessibility process

BACKGROUND

An application form is a critical tool a service delivery program uses for accessibility. According to a guide published by CCAF[5] detailing the factors affecting application processes, clear instructions for an application form have a direct effect on the efficiency of an application process, resulting in:

- applicants completing the form more quickly
- lower error rates
- faster processing times and reduced processing costs
- less time spent by staff answering questions from applicants and asking applicants for additional information[6]

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[4] Improving AISH: Explaining the Changes to AISH, May 2007.

[5] CCAF-FCVI Inc. is a Canada-based research and educational foundation for auditors; see http://www.ccaf-fcvi.com/.

[6] CCAF, Factors affecting the efficiency of application processes. http://focuson.ccaf-fcvi.com/application-processes-for-government-programs-or-licences/characteristics-of-application-processes/factors-affecting-the-efficiency-of-application-processes.aspx.

RECOMMENDATION 5: IMPROVE PROGRAM ACCESSIBILITY

We recommend that the Department of Human Services ensure its application processes are user friendly.

CRITERIA: THE STANDARDS FOR OUR AUDIT

For effective service delivery, the program should have a simple and easy to access intake process.

OUR AUDIT FINDINGS

KEY FINDING

Access to the AISH program through the existing intake process is complex and is not supported by user-friendly guidance and resources.

Intake process

Some Albertans applying to the AISH program have severe handicaps and may have difficulty obtaining the information and completing the forms that the application process requires. One of the recommendations in the MLA report was to improve client service delivery, including streamlining the application process. We expected the intake process to be simple and straightforward. We found the program has several accessibility barriers in the intake process:

- online resources for the application process are hard to find
- the application form is onerous
- there is inadequate pre-screening
- the process for triaging applicants is inefficient

Online resources

The AISH website contains general information about the program. However, we found locating key information for the application process difficult. For example:

- the "Eligibility for AISH" information page did not include information on some key eligibility criteria—specifically, limits on an applicant's income and assets—nor did it say where to find that information
- an email address or fax number for submitting applications was not provided
- a link to the application form on the "Applying for AISH" information page did not work—it linked to a page that did not exist

AISH application forms

Two application forms support the eligibility decisions of the program:

- the AISH application, which includes general, financial and medical information provided by the applicant
- one of three medical forms

Our review of the AISH application form found it to be onerous:

- there is redundancy in the form—some questions ask for the same information in different ways
- there is limited guidance on how to complete the form—the only help on the form is a checklist and a single sentence saying that an applicant with questions should call the nearest AISH office, and no office phone numbers or locations are given (the applicant has to search on the website to find contact information)
- the form does not clearly state key eligibility criteria—for example, applicants are asked to list their assets, but nowhere on the form does it say that the application will be denied if assets exceed $100,000 (this limit on assets is on the website but is difficult to find)

There are three possibilities for the medical form:

- medical report
- assessment of mental functioning
- functioning ability assessment

The AISH worker decides which of the three forms to give the applicant by assessing the applicant's description of their medical condition on the AISH application. The applicant then gives the form to their family physician to complete.

Many of the questions in the medical forms ask for information that the applicant already provided in the AISH application.

The three medical forms are quite similar to one another, and combining them would present an opportunity to shorten the application process. The applicant could use the single medical report immediately, without having to wait for the AISH worker to decide which one the applicant should use. Further, the medical section of the AISH application could then be shortened considerably, since one of its functions is to allow the AISH worker to decide which of the three medical reports to give the applicant.

Management informed us they perform the general and financial eligibility before sending the medical form to avoid applicants who are denied at the general/financial stage having to pay the fee for the physician to complete the medical form. From our testing, we found the program denies less than 1.5 per cent of applicants for general and financial eligibility reasons.

By requiring applicants to submit both forms at the same time, the department could prevent processing delays for 98 per cent of applications, and a typical applicant could save up to eight weeks in processing time.

Pre-screening process

The vast majority of application forms submitted are not checked for completeness as soon as they arrive at the office. Instead, an AISH administrative worker scans the newly arrived application forms into a queue for an AISH generalist to review. If the worker reviewing the application finds it to be incomplete, it will be returned to the applicant, who will have to update and resubmit it. Our sampling found AISH generalists returned 28 per cent of applications because they were incomplete and/or missing information.

The department has an opportunity to reduce timelines by reviewing applications for completeness as soon as they arrive.

Process for triaging applicants

The department has a "straightforward medical assessment" allowing applicants with certain medical conditions to have their medical eligibility review expedited upon submission of medical documents. While this process may allow the applicant to receive their benefit up to eight weeks earlier, they are still required to go through the same intake process as other applicants up to the point of medical review.

Medical conditions that the department will consider for the straightforward medical assessment include:

- moderate, severe or profound developmental disability diagnosis
- palliative or terminal prognosis
- organ transplant
- quadriplegia
- Down's syndrome
- severe brain injury

Applicants are also considered for the straightforward medical assessment if they have permanent residency in a facility, or if they are approved for permanent residency but are currently awaiting placement (e.g., in a hospital).

The program also has an abbreviated application form that can be used for palliative or terminal prognosis applicants. This abbreviated application process is shorter for the medical component as it only requires the physician to confirm the medical condition. Applicants are still required to pass the general and financial eligibility requirements. However, the form is neither available on the website nor even mentioned there. An applicant would know of this form only if they phoned the office and identified themselves as having a palliative or terminal prognosis or if someone told them about it.

We sampled from the palliative and terminal applications and found only 12 per cent had received the abbreviated application form. While all samples followed the straightforward process, 88 per cent had to complete the standard application form and did not benefit from the abbreviated form.

Timeliness of decisions is critical when applicants are in palliative care or have a terminal illness. We would expect the department to have a triage process for reviewing applications and expediting palliative and terminal applicants.

We looked at palliative and terminal applications submitted between January 2014 and June 2016 that were subsequently closed due to death. We found instances where approved applicants:

- did not receive the abbreviated application form
- received fewer benefits than they were entitled to
- died before receiving any financial or health benefits

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not improve its application process for the AISH program, Albertans with a severe disability will continue to have difficulty accessing the program and may not receive the supports they need.

Eligibility process

BACKGROUND

Consistent, efficient and accurate eligibility decisions are critical when they affect Albertans with disabilities.

The department must provide financial assistance to any applicant meeting the eligibility criteria for the AISH program. The criteria are set out in legislation, and the department has policy to interpret the legislation. One of the goals of the policy is to provide enough guidance on the legislation for staff to apply it consistently.

General and financial eligibility is determined through the AISH application and intake process, requiring the applicant to provide financial, personal and medical information (e.g., income and assets, marital status, family size, medical information, education, training and employment history).

If an applicant is financially eligible, the AISH worker sends the applicant the medical form to be completed. The applicant submits the required documentation for determining medical eligibility. An AISH worker then reviews the information provided and makes a decision based solely on the medical documentation received, without meeting the individual. AISH policy states department staff should not consider social factors in determining medical eligibility. The policy defines social factors as age, education, training and location.

Once an AISH worker has determined the applicant is eligible, benefits are retroactive to the date the applicant submitted all required medical documentation.

RECOMMENDATION 6: SET SERVICE STANDARDS AND IMPROVE ELIGIBILITY PROCEDURES AND GUIDELINES

We recommend that the Department of Human Services:

- set service standards for application processing times and regularly monitor against these standards
- improve procedures and guidelines to ensure staff apply policy in a consistent manner

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have systems and processes so that eligibility decisions are equitable and applications are efficiently processed.

OUR AUDIT FINDINGS

KEY FINDINGS

- The department does not have standards to regularly monitor its application processing times against.
- AISH workers have to use considerable judgment in their assessment of applications and receive inadequate training and guidance.
- The department treats applicants and clients differently in respect to "earning a livelihood."

Regular monitoring

Timeliness of decisions

The department runs daily, monthly and quarterly timeline reports. However, this information is not monitored against standards, is used for informational purposes and focuses only on one area of the application process. In the past, management used these reports to streamline their processes.

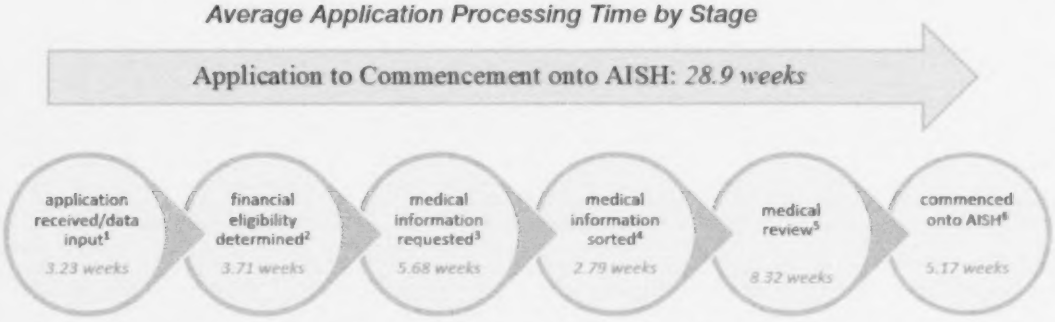
We found that data captured in the department's timeline reporting was not reliable, as AISH staff are able to modify key dates in the system, altering the application timeline. For example, we observed that:

- some application processing times were negative as incorrect dates had been entered into the system
- some eligibility decision dates had been moved earlier (i.e., the decision date was changed to an earlier month)
- there were differences in the same timeline report when it was run in March 2016 versus when it was run in July 2016

We believe there are ways the department can shorten service timelines. The department actively monitors timelines for only one stage of the application, the medical review stage. There is no evidence the department has made shortening the entire processing timeline an areas of focus.

It takes on average 203 days from receipt of the initial application form to commencement on the program. We compiled this timeline based on system-captured data from applications submitted between January 2014 and June 2016. The diagram below provides an overview of the steps from application to commencement with the average time and various measures gathered during our analysis.

Average Application Processing Time by Stage



1. AISH application is received and information is input into the system
2. financial eligibility is determined
3. medical form is sent to the applicant, who has it completed by a medical professional and then submits the completed form to AISH
4. AISH worker sorts the medical form and any other information received from the applicant and then sends it for medical review
5. medical review is completed
6. AISH worker meets with the approved applicant to sign the notice of eligibility and commence the applicant onto AISH

The department only considers the timeframe from receipt of the medical information to the medical review decision, as this is within their control. The other areas of the application processing timeline are reliant on the applicant. However, streamlining the application process would result in reduced application processing times.

Assessment of applications

Procedures to guide decisions

Reasonable consistency of eligibility decisions is necessary if applicants are to trust in the application process. We found that some aspects of policy in relation to eligibility required staff to make judgments, and there was insufficient guidance to staff on how to make those judgments.

Training

The department was not able to show they had provided adequate training to staff.

Efficient service delivery requires knowledgeable staff. The department recognized this need, and in 2015 created a training program with nine learning modules and a rollout plan for delivering the training to AISH workers. The department provided us its training tracker, but it was unable to provide evidence that staff had actually done the training or say when it was completed. This tool does not provide timely or sufficient information to assess the training needs of the program staff.

We reviewed the training manuals and concluded they would provide adequate basic training to all AISH staff. However, the training manuals do not provide enough guidance to minimize the subjectivity of staff assessing applications.

Non-compliance

Human Services Internal Audit (HSIA) has conducted numerous reviews of the AISH eligibility process. We assessed their work and concluded we can rely on their results to draw a conclusion.

HSIA has consistently found compliance errors in the eligibility process. While there tends to be some fluctuation in the number of compliance errors, overall there has not been a significant reduction year over year.

Management does have a process to review the recommendations of HSIA; however, implementing these recommendations has been ineffective as there has been no apparent improvement. This continual lack of improvement results in repeated errors at the eligibility stage, delaying benefits for applicants who need it most.

Communication to denied applicants

AISH applicants across the province do not receive consistent or complete information in the denial letters sent by the department. Each region has its own template with different information included. The letters do not clearly outline the appeal process or include a notice of appeal form, and they do not provide information detailing alternative support services available to the applicant.

We reviewed the templates and denial letters and found:

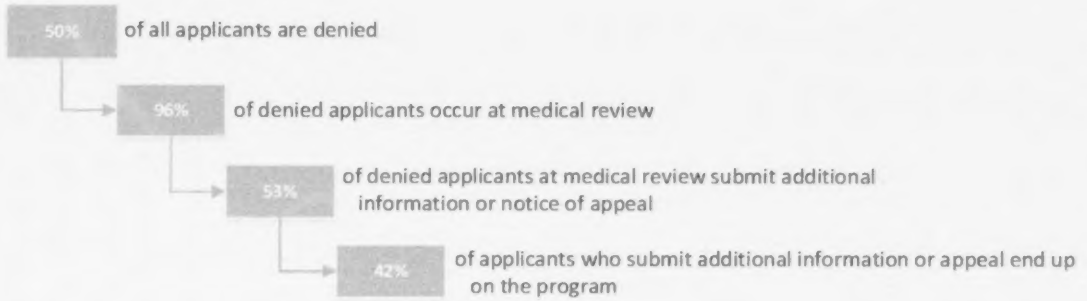
- some letters do not mention information on submitting additional documents for subsequent review of eligibility
- the appeal process is not clearly explained in the templates
- the appeal process and alternative support services are not clearly set out—this information blends in with other information near the bottom of the denial letter, where an applicant could easily overlook it

We would expect the department to provide the applicant with a clear and user-friendly letter outlining the reason for denial and what the next steps are, and to include an appeal form.

Appeals and administrative reviews

An applicant can initiate an appeal by submitting a notice of appeal or written request to AISH. An AISH administrative review occurs when an applicant submits additional information for reassessment to determine medical eligibility or when an appeal is requested. An AISH worker who did not make the original decision conducts an administrative review to try to resolve the issue informally. For those who submitted a notice of appeal, if an AISH worker does not overturn the decision at the administrative review phase, a date is set for an appeal hearing with an external appeal panel.

We reviewed the initial decisions for all AISH applications from January 2014 to June 2016 and identified:


50%
of all applicants are denied
96%
of denied applicants occur at medical review
53%
of denied applicants at medical review submit additional information or notice of appeal
42%
of applicants who submit additional information or appeal end up on the program

The department does not formally track or analyze specific reasons for denials or reasons for overturning denials.

The appeal panel acts independently of the AISH program, and although it uses the same legislation for appeal decisions, it bases its criteria on its own interpretation of the legislation. The appeal panel has the latitude to take into account social factors of an individual applicant when making its decision. While AISH staff use only a documentation review process to assess an application, the appeal panel and AISH meet with each applicant during the appeal hearing to give them the opportunity to clarify their individual situation.

The annual average cost of the appeal process is approximately $2 million.

From our analysis of appeals data we concluded there is a risk the program denies eligible applicants, given that 42 per cent who do appeal or provide additional information end up being approved. Further, not all those who are denied question the decision: only 53 per cent of denied applicants submit additional information or a notice of appeal.

We expected the department to use lessons learned from the appeal process results to increase the efficiency of its processing of applications and appeals, with the result of improving service delivery to its clients. However, the department does not capture relevant information to identify and act on these lessons.

Assessing "earning a livelihood" of new applicants

The AISH policy defines "earning a livelihood" as follows: "Applicants and clients must seek or accept reasonable employment for reasonable wages, within their ability. Earning a livelihood means being employed a minimum of 30 hours per week at a reasonable wage. Reasonable wage means minimum wage or a wage agreed to under a permit for employment for persons with disabilities." Legislation does not directly define "livelihood."

Under policy, AISH could deny an applicant working 30 hours per week. In contrast, an AISH client who is already part of the program is allowed to earn a livelihood working 30 hours a week. This example shows that AISH treats applicants differently than clients on the program with respect to livelihood considerations.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Eligible Albertans may not be able to support themselves and may face unnecessary hardship while waiting for benefits. In addition, there is the potential that denied applicants are eligible and should be receiving benefits.

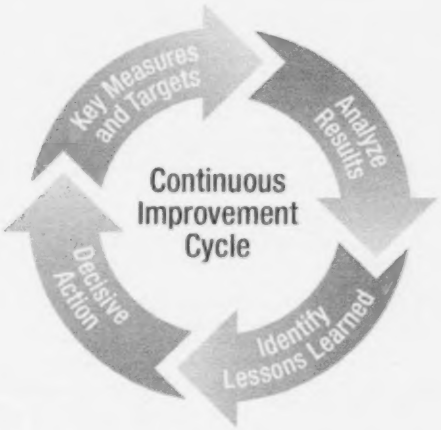
Reporting processes

BACKGROUND

Before an organization can know what it needs to improve to achieve desired outcomes, it must measure and analyze the results it is achieving.

The organization should:

- identify expected results and strategies to achieve the results
- create relevant performance measures for internal and external reporting
- set targets for the performance measures
- analyze the current results for the performance measures against the targets, as well as analyzing trends in relation to prior years
- identify ways to improve
- develop and implement a plan to improve
- report results in relation to desired outcomes, including lessons learned and plans for improvement



AISH has one publicly reported performance measure, the AISH quality-of-life index, and it has minimal internal performance measures.

RECOMMENDATION 7: IMPROVE REPORTING ON EFFICIENCY

We recommend that the Department of Human Services improve its processes to measure, monitor and report on the efficiency of the AISH program.

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have systems and processes to regularly measure, monitor and report—internally and externally—on key activities.

OUR AUDIT FINDINGS

KEY FINDING

The department has inadequate performance measures and processes to monitor and report on the operating efficiency of the AISH program.

Measuring and monitoring

In the section on the eligibility process (starting on page 37) we reported inadequacies in the following aspects of the AISH program:

- the length of time to process applications
- whether staff comply with policy when assessing applications
- the number of denied applications that are overturned at appeal

The department does not have performance measures related to any of these aspects of the program. It therefore does not know what improvements are required. Further, the department does not measure performance from region to region.

We also observed several ways the monitoring processes are limited because of insufficient:
- use of numerical and statistical information to analyze the efficiency of the program
- established program service levels, efficiency targets and performance comparisons to similar organizations
- data management practices to ensure that information is valid and reliable—for example, staff can change dates on file, such as the date an application was approved
- reporting capabilities to monitor overpayments

The department does measure and set targets for the following:
- the number of activities each AISH medical review worker must carry out daily
- the number of calendar days to reach a decision on an appeal
- the quality-of-life index, taken from customer satisfaction surveys

External performance reporting

In recent years, the AISH program has reported a survey-based measure in ministry annual reports and Measuring Up[7] that has a narrow focus relating to financial assistance. A direct measure of organizational performance with a target such as eligibility decision time for AISH applications has not been included in a ministry or government business plan for over seven years, the last inclusion being in Budget 2007–2010, released in 2008.

Survey measures should rarely be an exclusive measure of performance, but rather used in conjunction with other measures that focus on whether the organization is achieving its goals and desired results.

Management commentary in recent annual reports has focused on survey results that are constant over time. We did not observe reporting on:
- performance measures other than the survey measure referred to above
- whether desired results are being achieved
- the costs related to specific components of the program

Other jurisdictions with programs similar to AISH have more robust reporting:
- the Ministry of Social Development and Social Innovation in British Columbia reports a performance measure for length of time to process applications
- the Health and Disability Complaints Office in Western Australia reports the following performance measures:
  - percentage of complaints closed within legislative time frames
  - average cost per finalized complaint
  - average cost per awareness raising activity

Other Alberta programs included performance measures relating to length of time for approving applications and processing appeals (see Appendix).

[7] http://www.finance.alberta.ca/publications/annual_repts/govt/2015-16/goa-2015-16-annual-report-complete.pdf

Performance management framework

In August 2014, the department developed a performance management framework for the ministry that includes the AISH program. The initial planned implementation date for the full ministry framework was the beginning of 2016, but the department has revised it to after March 2017. The department has prepared a draft logic model[8] for the area that includes the AISH program. The next step is developing performance measures.

The purpose of the framework is to enable the department to monitor and assess organizational performance and translate the resulting findings into plans for improvement.

The delays in implementing the framework will affect AISH management's ability to:

- monitor progress toward achieving desired results
- take corrective action
- improve the foundation for internal and external reporting

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of robust measuring, monitoring and results analysis reporting, management will not have adequate information to analyze performance and make required improvements to the program. In addition, management and stakeholders will not receive enough information to assess whether the program is achieving its desired results.

[8] A logic model is a graphical depiction of the logical relationships between the resources, activities, outputs and outcomes of a program.

APPENDIX: PRIOR-YEAR BUSINESS PLAN MEASURES

Prior-year business plans for Alberta programs included performance measures relating to length of time for approving applications and processing appeals:

Ministry of Human Resources and Employment 2006–2009 Business Plan:

- Measure 7.a: Average number of days from the acceptance of an application to the date of the first hearing
- Measure 7.b: Percentage of applications, with board involvement, settled before reaching a formal hearing
- Measure 7.c: Percentage of decisions rendered within 90 calendar days from the completion of hearing(s)
- Measure 7.d: Percentage of decisions rendered within 180 calendar days from the completion of the hearing(s)
- Measure 8.a: Average number of days of processing time required by the Appeals Commission from the date the appeal is received until the appeal is finalized:
  - Standard appeals
  - Complex appeals

Ministry of Energy 2006–2009 Business Plan:

- Measure 6.a: Percentage of oil and gas facility and resource applications filed with objections resolved without a hearing

Ministry of Municipal Affairs 2006–2009 Business Plan:

- Measure 5.a: Percentage of claims where a member of the damage assessment team arrives on site within 30 days of a claim being received

AUDITOR GENERAL
Alberta

Stand-alone Systems Auditing—Follow-up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

Advanced Education—Olds College —Information Technology System Implementation Follow-up

SUMMARY

In 2014 Olds College management recognized that the college's aging administrative systems were becoming difficult to maintain. The board approved a project to replace the college's financial, payroll and student services systems with an integrated enterprise resource planning (ERP) system.

In 2015[1] we assessed the college's readiness to implement the first module (finance) of its ERP system. We evaluated the design of the college's project controls for mitigating the risks of its ERP implementation plan. The recommendations from our audit provided an early warning to the college of weaknesses in the project implementation plan. In particular, we recommended that the college improve its:

- detailed project planning
- business change planning
- oversight of project risk management

The college's finance module went live on November 1, 2015.

What we examined

We examined the actions management took to implement our three October 2015 recommendations.

Overall conclusion

The college implemented the finance module and achieved the objectives management defined at the start of the project. The college can learn valuable lessons from this implementation that it can apply when implementing future ERP modules.

What we found

The college performed a number of changes to the project implementation plan that sufficiently reduced the risk that the implementation would fail. However, because of the lack of detailed project planning and business change planning in the implementation plan, the college had to take extra time and spend additional money to get the finance module fully functional after the go-live date.

Why this is important to Albertans

A failure to properly implement a new system would impair the college's ability to effectively run its operations. Albertans expect post-secondary institutions to have strong financial systems to monitor and report promptly on their operations. These systems should also provide college management with the necessary information to make decisions on how to provide education cost effectively to students.

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[1] *Report of the Auditor General of Alberta—October 2015*, pages 29–40.

OBJECTIVE AND SCOPE

The objective of our follow-up was to examine the actions management took to implement our October 2015 recommendations. The ERP module had gone live by the time of our follow-up, and following up recommendations on an implementation plan that was completed had limited value. Therefore, our focus was to provide lessons that the college can apply to similar projects in the future.

Olds College developed its ERP system through the Department of Advanced Education's Campus Alberta Unified Services initiative. CAUS uses the expertise and ERP system of the University of Alberta to develop and configure ERP systems for smaller post-secondary institutions. The university hosts and maintains the ERP system for the post-secondary institution. We did not assess the department's CAUS initiative or the development of the ERP system at the University of Alberta.

We conducted our follow-up field work from May 9 to May 27, 2016 and substantially completed our examination on June 17, 2016. Our work was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS

The college went live with the ERP module on November 1, 2015 after adjusting their system implementation plan, in part from applying our recommendations. We will not assess if our recommendations were fully implemented given the system implementation plan has already been executed. Rather, what follows is our findings of what the college did to adjust their plan in the areas recommended prior to November 1 and lessons the college can learn from the results of executing its plan for future ERP module implementations.

Improve detailed project planning

BACKGROUND

In our 2015[2] audit we found that important project details, such as project activities, timelines, dependencies and milestones, were missing in the initial project plan. We also found that the college had not conducted a readiness assessment and had not defined acceptance criteria for implementing the module.

OUR FOLLOW-UP FINDINGS

We found the college had completed the following before the go-live date:

- a detailed project plan, outlining detailed tasks, timelines, dependencies and milestones for the finance module implementation
- an assessment examining the readiness of major project categories, such as project management, application readiness, user readiness, and technical and production support. The project steering committee approved the readiness assessment and the go-live date of November 1, 2015.

[2] *Report of the Auditor General of Alberta—October 2015*, no. 3, page 32.

Improve business change planning

BACKGROUND

In our 2015[3] audit we found that the college had not documented its business controls[4] and the expected changes to them from implementing the new system. We also found that the college did not have a good understanding of the new ERP system's financial reporting capabilities and had not defined reporting requirements for the implementation of the first module. Although the University of Alberta hosts the ERP system and provides application management services to the college, we found that the college had not defined support and service agreements with the university.

OUR FOLLOW-UP FINDINGS

We found that the college had still not defined business controls for the new system. The project team decided not to document all existing business processes at the college because management was planning to adopt the university's processes.

Because of the lack of business process documentation, business areas spent approximately 170 hours identifying differences between the college's and the university's business processes, policies and procedures, and identifying the required changes to the college's processes before the go-live date.

Further, we found that the college did not finalize financial reporting requirements until later stages of the implementation of the finance module. As a result, some important reporting functions were not available until months after the implementation date. The college incurred costs of $36,000 toward implementing additional reporting functions after the initial go-live date.

The college project team has now defined the process for the University of Alberta to provide technical and business support related to the new system. In addition, the college entered into an agreement with the university to provide application management, infrastructure management, customer management and business services to the college.

Improve oversight of project risk management

BACKGROUND

In our 2015[5] audit we found that the college had not completed the identification of project risks. For the risks that the college identified, the college had not defined clear mitigation plans, and the project team did not consistently report project risks to college management and the board.

OUR FOLLOW-UP FINDINGS

We found that the college had implemented a formal project risk management plan and had identified key project risks for the implementation of the first module. The project team discussed the project risks at the project steering committee monthly meeting before the go-live date.

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[3] *Report of the Auditor General of Alberta—October 2015*, no. 4, page 34.
[4] Business controls help organizations ensure their transactions are complete, accurate and valid and kept confidential.
[5] *Report of the Auditor General of Alberta—October 2015*, no. 5, page 36.

LESSONS LEARNED FOR FUTURE MODULES

The college took appropriate actions to implement the first module of the ERP system. However, because of the lack of detailed project and business change planning, the college had to take extra time and spend additional money to get the finance module fully functional after the go-live date.

The college project team conducted a post-implementation review of the finance module to identify lessons the college can apply to improve the implementation of future ERP modules. The project team documented these lessons in a project closure report submitted to the project steering committee for approval on May 10, 2016.

As a result of our follow-up findings, we identified several lessons the college could learn, consistent with those the college identified in its post-implementation review. We conclude that, to increase the chances that future modules will be implemented successfully, management should:

- develop a detailed project plan in the early stages of project planning to ensure there is sufficient time and budget to complete all required tasks before the project goes live
- define business reporting requirements early in the project, so that all required reporting functions will be available immediately after the project goes live
- document existing and future business processes at the college to:
  - identify potential process differences
  - increase business users' awareness of any changes to business processes that may be required

Executive Council—Contracting Processes Follow-up

SUMMARY

In October 2014[1] we reported the results of our audit of the Department of Executive Council's systems to manage contracts. We recommended that the Department of Executive Council:

- document the rationale for contracting and vendor selection
- follow proper contract administration and evaluation processes
- update its contracting policy to deal with situations where one department arranges a contractor for another department

The department has updated its policy and strengthened its contract administration and evaluation processes but needs to make further improvements to support its contracting decisions and assessment of contract rates.

After we completed our field work, management implemented a new contract form that requires staff to provide more thorough documentation to support sole-sourced contract decisions and contract rates.

What we examined

The objective of our audit was to determine whether the department had adequate processes in place to ensure sole-sourced contracting activities complied with its contacting policy. We examined the department's systems and processes for sole-sourced contracts.

Between April and December 2015, the department entered into six sole-sourced contracts, each with a contract value greater than $10,000. We examined these six sole-sourced contracts. Our examination included testing contract files and conducting interviews with management.

Overall conclusion

The department has updated its contracting policy and strengthened some of its contracting processes, but further work is needed.

What we found

We found that the department:

- has updated its contracting policy, including clarifying situations where one department arranges a contract for another department
- has strengthened its contract administration and evaluation procedures
- needs to improve its documentation to support the assessment of the contract rate and to support contracting decisions, including the need to contract and selection of vendors

[1] *Report of the Auditor General of Alberta—October 2014*, no. 10, page 62. This recommendation was made jointly to the Department of Executive Council and the Department of Municipal Affairs. We report on the Department of Municipal Affairs' implementation of this recommendation on page 137 of this report.

What needs to be done

The department must continue to strengthen its processes and comply with its contracting policy. Specifically, the department must ensure that support for contracting decisions and the reasonability of contract rates is documented and on file and that contracts are authorized before services are received.

Why this is important to Albertans

Strong contracting policy and processes help ensure Albertans receive the services they need and value for the money spent on contracted services.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine whether the department had implemented our contracting recommendation from October 2014.

To perform the audit we interviewed management, reviewed department policies and tested six sole-sourced contracts the department entered into between April and December 2015.

We conducted our field work from March to May 2016. We substantially completed our audit work on July 21, 2016. We completed our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS AND RECOMMENDATION

Improve contracting processes—repeated

BACKGROUND

In October 2014[2] we recommended that the Department of Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- follow proper contract administration and evaluation processes
- update its contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

In November 2014 the Department of Treasury Board and Finance issued the Procurement and Sole-sourcing Directive.[3] The directive provides guidance to all departments in the Government of Alberta on requirements for contracting and provides specific guidance on and limitations for using sole-sourced contracts.

Sole-sourced contracting refers to a situation where a department issues a contract to a vendor without holding an open, public competition. There are several reasons why a department may need to use sole-sourced contracts—for example, if only one qualified vendor exists or if there is an emergency.

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[2] *Report of the Auditor General of Alberta—October 2014*, no. 10, page 62.
[3] Treasury Board Directive 2014/7—Procurement and Sole-sourcing Directive.

RECOMMENDATION 8: IMPROVE CONTRACTING PROCESSES—REPEATED

We again recommend that the Department of Executive Council improve its contracting processes by documenting:

- the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received

CRITERIA: THE STANDARDS FOR OUR AUDIT

The Department of Executive Council should have adequate and relevant policies in place to guide and direct sole-sourcing activities, and it should comply with these contracting policies.

OUR AUDIT FINDINGS

KEY FINDINGS

- The department has updated its contracting policy to align with government-wide directives and practices. The department has also improved its contract evaluation processes.
- We continue to find insufficient documentation to support contracting decisions and to support the department's assessment of whether its contract rates are reasonable.

Contract policy

In June 2015 the department implemented a new contracting policy to align with Treasury Board's directive on sole-sourced contracts and procurement. The department also clarified responsibilities for compliance with its policy in situations where one department arranges for a contractor to perform services for another department.

Contract deliverables and evaluations

For all sole-sourced contracts we tested, we found that:

- deliverables were provided as outlined in the contract
- evaluations had been finished and documented for contract files that were complete at the time of our follow-up audit

Contract decisions and administration

The department uses a contract information form to document and support its contracting decisions. The form includes criteria that staff select to support decisions on contracting and sole sourcing. However, the criteria are too general. For example, one of the criteria for sole sourcing is that the department can demonstrate that only one supplier is able to meet the requirements. The department does not require staff to document the requirements or what they have done to demonstrate that only one supplier exists.

For some of the sole-sourced contract files we tested, we found insufficient documentation to support decisions on contracting and sole sourcing. Specifically, there was not enough documentation to support:

- the need to contract for the service
- the rationale for the department's choice of vendor

For several sole-sourced contract files we examined, the department had not documented its assessment of the reasonability of the proposed contract rate.

We also identified one instance where the department did not sign the contract until nearly one month after the contractor began providing services.

Since the completion of our field work, the department has implemented a new contract information sheet and clarified documentation requirements for sole-sourced contracts to deal with the documentation deficiencies we identified in our follow-up audit.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without strong processes in place to manage contracting, the department is at risk of not receiving the best value for money.

AUDITOR GENERAL
Alberta

Financial Statement Auditing

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

Financial Statement Auditing

INTRODUCTION

The Government of Alberta prepares financial statements and makes them public to inform Albertans about the province's financial performance. The Office of the Auditor General, under the *Auditor General Act*, audits the financial statements of the Province of Alberta, as well as every ministry, department, regulated fund and most provincial agencies.

An audit is the collection and evaluation of evidence about the fairness of financial statements. By obtaining this evidence, the auditor general is able to provide a high level of assurance to Albertans about whether the financial statements prepared by management are fairly presented and free from material misstatements. An audit includes assessing where errors (misstatements) could occur in the financial statements, testing management's internal control over financial information and performing additional audit procedures.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This auditing does not mean that the auditor general examines every transaction or guarantees that the financial statements are error free. Millions of transactions are summarized into the province's financial statements. Audits, therefore, necessarily focus on areas of risk and on the places where errors that matter to users' understanding of the financial statements as a whole are likely to occur.

We issued unqualified independent auditor's reports on the financial statements for those entities we audited, including the province's consolidated financial statements. The government prepared the budget on the same basis as the province's consolidated financial statements. Therefore, our auditor's report on the province's consolidated financial statements did not include an Emphasis of Matter paragraph to emphasize the disclosure of the constructed budget in the province's consolidated financial statements. For a list of the entities we audit, please refer to our results analysis report (Appendix A, page 192).

Advanced Education

SUMMARY

DEPARTMENT

There are no new recommendations to the department in this report. The department has five outstanding recommendations to implement.

POST-SECONDARY INSTITUTIONS

There are no new recommendations made to post-secondary institutions in this report. Post-secondary institutions in total have 16 outstanding recommendations to implement.

Matters from prior audits

IT system implementation at Olds College follow-up audit—see page 49.

Athabasca University, the University of Calgary and the University of Lethbridge have improved systems to comply with legislation—see page 64.

We repeat recommendations to Athabasca University to:

- establish information technology resumption capabilities—see page 65.
- improve procedures to monitor and report access and security violations—see page 66.

The University of Calgary improved processes to remove users' access privileges promptly —see page 68.

POST-SECONDARY INSTITUTIONS REPORT CARD

This report includes an update on the report card on four universities' internal controls over financial reporting, together with comparative assessments from our 2015 and 2014 audits. Our February 2016 report included the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year-end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

Consistent with our prior report cards, we evaluated the following key indicators of sustainable effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

A university could have a yellow or red status yet still receive an unqualified opinion on its financial statements, as management can correct errors and disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective financial controls are for preparing accurate financial statements. We occasionally make observations to management at the end of our financial statement audit of less significant control weaknesses that do not require immediate remediation like recommendations do. We would note a caution in the report card however if numerous observations are being identified at a particular institution. Numerous observations would be a strong indication the institution's overall financial processes and internal controls may not be sustainable.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is on page 66. Thirteen of the 16 outstanding recommendations to institutions are older than three years.

Effective control environments include clear policies, well designed processes and controls to implement and monitor compliance with policies, and secure information systems. Such control environments help provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. Weak control environments impact the quality of decisions made by management and the board of governors. This can result in an institution not achieving its goals by operating in a cost effective manner and managing operating risks.

The report card

- ◆ Significant improvement is required.
- △ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- ● We have not identified significant weaknesses in the control environment.

INSTITUTION	FINANCIAL STATEMENTS PREPARATION		OUTSTANDING RECOMMENDATIONS
	Accuracy	Timeliness	
Athabasca University			
2016	●	●	◆
2015	●	●	◆
2014	●	●	◆
University of Alberta			
2016	●	●	●
2015	●	●	●
2014	●	●	●
University of Calgary			
2016	●	●	●
2015	●	●	●
2014	●	●	●
University of Lethbridge			
2016	●	●	●
2015	●	●	●
2014	●	●	●

Note: *The Report of the Auditor General of Alberta—February 2016*, page 96 included the fiscal 2015 report card as the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

In concluding on our report card, we note the following:

Financial statements preparation

The four universities have sustained effective processes to prepare timely and accurate financial statements. The universities prepare clear documentation and support for financial reporting conclusions which significantly enhances the universities' financial reporting preparation and internal controls throughout the fiscal year. The universities are continuously working to improve financial reporting systems and management's decision making ability. Sustaining strong financial reporting systems increases opportunities to use results analyses to better communicate the universities' performance and accountability for results.

We issued unqualified audit opinions on the financial statements of all four universities.

Outstanding recommendations

There were no new recommendations to the four universities. Five of Alberta's six universities have now implemented all their outstanding recommendations.

We repeated two recommendations on Athabasca University's information technology internal controls and processes. We again repeat that the university must establish IT resumption capabilities. The university must also improve procedures to monitor and report IT access and security violations. The board of governors must ensure management implements these recommendations promptly, along with other IT system observations we have made during our audit. Rectifying the identified weaknesses is critical to reliably providing accessible online learning to Albertans and sustaining processes to produce accurate financial reporting to the board of governors and Albertans.

FINDINGS AND RECOMMENDATIONS

POST-SECONDARY INSTITUTIONS

CROSS-INSTITUTION RECOMMENDATION

Matters from prior audits

Improve systems to ensure compliance with legislation

Starting in 2013, we recommended that post-secondary institutions[1] improve systems to comply with legislation by implementing systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

The post-secondary institutions worked collaboratively to implement the recommendation in two phases. Initially, in 2014, the institutions implemented a sector-wide initiative to engage an external legal firm to identify existing and recently changed or newly enacted legislation impacting post-secondary institutions. In the second phase of implementation, each institution used information obtained collaboratively to integrate compliance with legislation within its risk management systems and processes.

We previously reported seven institutions had implemented our recommendation.[2]

We examined process improvements implemented at Athabasca University, the University of Calgary and the University of Lethbridge. Our follow-up audit at each of these three universities included examining:

- the legislative compliance framework outlining management's processes to identify legislation with which the institution must comply
- management's process for monitoring to ensure compliance
- instances of non-compliance, along with corresponding mitigation plans
- reporting to board audit committees

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[1] *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60, *October 2013*, page 94, and *February 2014*, page 75.

[2] University of Alberta: *Report of the Auditor General of Alberta—October 2015*, page 127. Grande Prairie Regional College, MacEwan University, Mount Royal University, NorQuest College, Northern Alberta Institute of Technology and Southern Alberta Institute of Technology: *Report of the Auditor General of Alberta—February 2016*, page 99.

We found management of each of the three universities provided their board and executive committees at least an annual report on legislative compliance. The compliance report included instances of non-compliance along with corresponding mitigation plans. Significant legislative compliance risks were included in the university's enterprise risk management assessment, and some institutions prepared separate legislation risk registers. Completion of the legislative compliance assessments was by either management or special management committee. At each university, we did not identify any significant legislation related to financial reporting for the fiscal 2016 financial statements that management failed to consider in their reporting.

We conclude the three universities have implemented processes to ensure compliance with legislation and that the processes are operating effectively.

ATHABASCA UNIVERSITY

Matters from prior audits

Establishing information technology (IT) resumption capabilities —repeated

BACKGROUND

In 2010,[3] we recommended that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities, including required computer infrastructure, to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan (DRP) to ensure continuous services are provided in the event of a disaster

The university relies heavily on its IT systems and infrastructure to deliver online student services, including course materials and course evaluations as well as daily corporate financial activities. Failure to recover promptly from a disaster affecting the data centre at the main campus in Athabasca would affect the university's ability to continue providing these services.

We found in 2010 that the university prepared a DRP in 2008 but had not updated or tested it since. We repeated our recommendation in 2013 as updating and testing were still incomplete. We found the university had performed a risk assessment on its IT resumption capability that confirmed the university would not be able to recover its critical student IT services from a catastrophic failure at the data centre in Athabasca. The university initiated a project in 2012 to update its recovery plans and capabilities and was assessing disaster recovery scenarios and pilot test cases for its disaster recovery strategy. This project is still in progress.

We again repeat our recommendation given the significant risk to the university if it does not update and test its DRP capabilities.

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[3] *Report of the Auditor General of Alberta—October 2010*, no. 10, page 111 (repeated in *Report of the Auditor General of Alberta—October 2013*, no. 9, page 96).

RECOMMENDATION 9: ESTABLISH INFORMATION TECHNOLOGY RESUMPTION CAPABILITIES—REPEATED

We again recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

CRITERIA: THE STANDARDS FOR OUR AUDIT

The university should have:

- a DRP that is based on risk assessment of critical IT services and business requirements for the continuity of these services
- a documented and effective backup and restoration plan or procedures for its critical information assets
- effective plans and means to test the DRP regularly using an off-site IT recovery facility
- effective procedures to assess the adequacy and completeness of the DRP after testing

OUR AUDIT FINDINGS

KEY FINDING

The university has still not updated and tested the DRP prepared in 2008 as management has concluded the university does not have adequate monetary resources to do so.

Since 2013, management's efforts to design a disaster recovery site hosted by another institution were not successful. As a result, the university has still not updated or tested its DRP prepared in 2008. Management has asserted that implementation of IT resumption capabilities is not imminent because it is unable to obtain appropriate monetary resources to test the DRP and establish an off-site disaster recovery facility.

Management must prioritize resources to establish IT resumption capabilities, which are critical to the university's mandate to reliably provide accessible online learning. The university would likely not recover significant IT systems in a reasonable period of time if a system failure occurred.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a functional disaster recovery plan and appropriate recovery facilities and equipment, the university will not be able to systematically recover data or resume critical business and student services within the required time frames.

Improve procedures to monitor and report access and security violations—repeated

BACKGROUND

In 2013,[4] we recommended that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

[4] *Report of the Auditor General of Alberta—October 2013*, no. 8, page 95.

We found that, while management logs and monitors access to critical IT systems, it did not formally document evidence of periodic review, escalation of access and security violations identified and remediation actions. Management also did not inform senior management of any access and security violations that occurred.

We again repeat this recommendation as management's periodic reviews of access and security violations are incomplete.

RECOMMENDATION 10: IMPROVE PROCEDURES TO MONITOR AND REPORT ACCESS AND SECURITY VIOLATIONS—REPEATED

We again recommend that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

CRITERIA: THE STANDARDS FOR OUR AUDIT

The university should have a documented and effective control process to monitor and log information security and access violations. Management should configure its network operating systems, applications and other security devices to prevent unauthorized access. Such processes should specify how management should report and remediate security violations.

OUR AUDIT FINDINGS

KEY FINDING

The university still does not perform regular periodic reviews of access and security violations on applications.

Effective September 2014, the university implemented the Computer Security Incident Response Procedures. The procedures provide direction to students, faculty, staff and executives when dealing with computer security incidents affecting any part of the university's information technology infrastructure. We observed that the procedures document included the reporting process to senior management, identification of root causes and resolution of security threats and violations. We also examined a computer security response and verified that management followed appropriate procedures.

Management logged and monitored access to its critical systems and performed periodic reviews to monitor logs of servers, network devices and firewalls. However, management still does not perform regular periodic reviews of access and security violations at the application level. Management only performs reviews on applications when security violations occur. We also did not see evidence that management kept documentation of their reviews performed under the procedures. Management is assessing the use of automated log management and log review tools to improve its processes.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Failure to actively monitor access and security violations allows an intruder to probe for weaknesses or entry points to the university's financial information systems. Access and security violations would go undetected or not be properly dealt with, causing security threats to the university's financial applications and information resources.

THE UNIVERSITY OF CALGARY

Matters from prior audits

Remove users' access privileges promptly—implemented

The university has implemented our 2012 recommendation[5] to define and communicate an acceptable time frame to disable or remove user accounts from the university's information technology systems when the users leave the university. We:

- reviewed the university's policy requiring the removal of a user's access within five business days of the termination date
- ensured that the policy was communicated through the human resources department to team leaders/supervisors
- examined control procedures to ensure deactivation of user access policy is complied with
- tested a sample of deactivated accounts during the period and found no exceptions to the university's policy

We conclude from our examination that management's processes are adequate and operating effectively.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Develop strategic plan and accountability framework—July 2013, no. 6, p. 48

We recommend that the Department of Advanced Education (through the Campus Alberta Strategic Directions Committee):

- develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta, initiatives to achieve those outcomes, resources required and sources of funding
- develop relevant performance measures and targets to assess if the outcomes are being achieved
- publicly report results and the cost of achieving them
- review and clarify the accountability structures for governing collaborative initiatives

Develop processes and guidance to plan, implement and govern collaborative projects —July 2013, no. 7, p. 51

We recommend that the Department of Advanced Education (through the Campus Alberta Strategic Directions Committee) develop systems and guidance for institutions to follow effective project management process for collaborative initiatives.

For-profit and cost recovery ventures at post-secondary institutions—document and communicate expectations and guidelines—October 2015, no. 1, p. 25

We recommend that the Department of Advanced Education:

- document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures
- establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations
- update and approve for-profit venture guidelines, to support best practices and align with the department's expectations
- develop a process to communicate the department's expectations and guidelines to all institutions.

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[5] *Report of the Auditor General of Alberta—October 2012*, no. 21, page 112.

For-profit and cost recovery ventures at post-secondary institutions—improve department's oversight of institutions' risk assessment of ventures—October 2015, no. 2, p. 27
We recommend that the Department of Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:

- tailoring board training to examine these ventures
- maintaining relevant documentation of the institution's risk assessment and venture approval requests
- requiring the institution to comply with the department's expectations and guidelines
- requiring the institution to report on venture results on an ongoing basis
- providing effective feedback and ongoing guidance to the boards

Improve enterprise risk management—October 2015, no. 15, p. 124
We recommend that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

POST-SECONDARY INSTITUTIONS

	OUTSTANDING RECOMMENDATIONS		
Institution	3+ Years*	Other	Total
Alberta College of Art + Design	1	-	1
Athabasca University	2	-	2
Bow Valley College	1	-	1
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	1	1	2
Lethbridge College	1	-	1
MacEwan University	-	-	-
Medicine Hat College	1	-	1
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	1	-	1
Olds College	1	1	2
Portage College	1	-	1
Red Deer College	2	-	2
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
Total Outstanding	**13**	**3**	**16**
Ready for follow-up audit***	8	1	
Not yet ready for audit	5	2	

* Originally issued in October 2013 report and earlier
** Outstanding recommendation to improve financial reporting processes
*** Based on management representations to October 1, 2016

CROSS-INSTITUTIONAL RECOMMENDATION

Improve systems to ensure compliance with legislation—February 2013, no. 7, p. 60

We recommend that the post-secondary institutions[6] implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

For the following institutions, this recommendation is outstanding and not yet ready for a follow-up audit:

- Keyano College
- Northern Lakes College
- Portage College

For the following institutions, management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

- Alberta College of Art + Design
- Bow Valley College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Olds College
- Red Deer College

ATHABASCA UNIVERSITY

The following recommendations are outstanding and not yet ready for follow-up audits:

Establish information technology resumption capabilities—October 2016, no. 9, p. 66 (repeated October 2013, no. 9, p. 96 and originally October 2010, no. 10, p. 111)

We again recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

Improve procedures to monitor and report access and security violations—October 2016, no. 10, p. 67 (originally October 2013, no. 8, p. 95)

We again recommend that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

[6] As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016 and October 2016.

KEYANO COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting processes—February 2016, no. 13, p. 102

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards
- improving its monitoring and reviewing processes to ensure accurate financial information.

LAKELAND COLLEGE

Management has identified this recommendation as implemented – to be confirmed with a follow-up audit:

Improve segregation of duties—February 2016, no. 14, p. 103

We recommend that Lakeland College improve segregation of duties within the finance department.

OLDS COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access controls to information systems—February 2016, no. 15, p. 105

We recommend that Olds College strengthen its information systems access controls, to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

RED DEER COLLEGE

Management has identified this recommendation as implemented – to be confirmed with a follow-up audit:

Improve general computer control environment—February 2016, no. 16, p. 108
(originally February 2013, no. 32, p. 100)

We again recommend that Red Deer College improve its general computer control environment by:

- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

Agriculture and Forestry

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Agriculture and Forestry in this report.

AGRICULTURE FINANCIAL SERVICES CORPORATION

Recent Office of the Auditor General audit communications with AFSC—see below.

There are six new recommendations to AFSC in this report.

- AFSC needs to improve its lending program—see page 21.
- AFSC needs to:
  - ensure compliance with established policies—see page 75.
  - strengthen processes to report senior executives' expenses to the board of directors—see page 79.

FINDINGS AND RECOMMENDATIONS

AGRICULTURE FINANCIAL SERVICES CORPORATION

Matters from current audits

Recent Office of the Auditor General audit communications with AFSC

On June 13, 2016, the Minister of Agriculture and Forestry announced the dismissal of the Agriculture Financial Services Corporation's (AFSC) board of directors. As well, three AFSC senior executives were relieved of active duty. In conjunction with this announcement, the government made public a Corporate Internal Audit Services (CIAS) report that highlighted instances of non-compliance with AFSC's policies, based on looking at select senior executive expenses and select contractors.

Prior to the public release of the CIAS report, the Department of Agriculture and Forestry and AFSC had informed us CIAS was examining certain senior management expenses and contracts at AFSC. We were not involved in the CIAS examination at AFSC, and we obtained the CIAS audit report upon its public release. We view our role as external auditors as complementary to the work that internal audit completes, and as such we do not intend to audit transactions that CIAS has already examined. We will consider the results of CIAS's work in our assessment of risk when planning future audit work at AFSC. We complete an annual audit of AFSC's financial statements and also have the ability to perform systems audits at AFSC. Through our audit work over the last number of years, we identified areas where oversight of AFSC's operations needed improvement and where processes needed strengthening to ensure expenses comply with corporate policies. For example:

- In June 2013, as part of our financial statement audit we made two observations to the board and senior management of AFSC to:
  - improve its documentation of the business purpose supporting travel expenses
  - implement a formal process to report senior executive expenses to the board
- During the fall of 2014, we began planning an audit of oversight processes at AFSC. Before we finalized our audit plan, the government at that time announced a review of agencies, boards and commissions, with AFSC selected as one of the first for review. We decided we would postpone our audit of oversight processes until the government review was complete and AFSC had had time to make any necessary improvements as a result of the review. While it is our understanding that the

review was nearly completed, we have been unable to obtain the results of that review. Because of the recent changes at AFSC and the future appointment of a new board, we will continue to assess whether we should proceed with an audit of oversight processes.

- In June 2015, as part of our financial statement audit we made observations to the board and senior management of AFSC to improve the design of its whistleblower protection process and to better document its assessment of the performance of its reinsurance contractor to better support decisions to renew the contract.
- On May 6, 2016, we issued a management letter to the former chair of the board in which we identified instances of non-compliance with AFSC's policies relating to the expenses of a senior executive. We began our audit work during the fall of 2015, prior to the CIAS audit at AFSC. The senior executive whose expenses we examined resigned prior to our audit. We made two recommendations to management—to improve processes to ensure compliance with policies and to improve the reporting of senior management expenses to the board. Management has accepted our recommendations and is in the process of implementing them. For the results of this audit, see below.

We are aware that senior management at AFSC and the interim board of directors are examining a number of processes and policies to determine what improvements are necessary. We are encouraged that action is being taken to strengthen processes at AFSC. As part of our future audit work at AFSC, we will follow up on all recommendations we have made to AFSC to determine if they have been implemented.

AGRICULTURE FINANCIAL SERVICES CORPORATION—SENIOR MANAGEMENT EXPENSES

Summary

During our financial statement audit for the year ended March 31, 2016, we identified certain transactions involving a former vice president, who resigned in June 2015, that did not comply with AFSC's established policies.

The president and the vice president entered into agreements that either did not comply with AFSC's policies or did not have adequate legal and financial review. Training resources were wasted and AFSC incurred unnecessary expenses as a result. AFSC's board did not receive sufficient information on senior executives' expenses to be able to provide proper oversight.

Recommendations and findings

Training and termination expenses relating to the former vice president, human resources and community relations

BACKGROUND

AFSC has a training and development policy that outlines when return of service commitments may be required. Return of service policies exist to protect an organization's investment—employees may have to pay back professional development expenses if they resign before a particular date. AFSC has a template for training reimbursement agreements to ensure compliance with the policy.

In August 2011 the vice president submitted a request to the president seeking approval for an executive MBA, financed primarily by AFSC. The request highlighted five executive MBA programs and recommended the IE Brown Executive MBA program, at an estimated total cost of $110,000.

In October 2011 the president and vice president signed a training reimbursement agreement. The agreement stipulated that the vice president contribute $15,000 toward the cost of the MBA program and AFSC would cover the remainder of the cost. The vice president started the MBA program in March 2012. On July 31, 2012, the vice president signed a repayment arrangement stipulating that the vice president was to pay the agreed upon $15,000, through $300 monthly deductions for 50 months, starting September 2012 and running through to October 2016.

The vice president completed the MBA program in June 2013. The total actual cost incurred by AFSC for the MBA program, including expenses related to travel and accommodation, was $118,288.

In October 2014, AFSC paid $18,112 to a professional development program to enrol the vice president in an external professional development program from November 2014 to May 2015. The vice president completed the program in May 2015 with the total cost incurred by AFSC, including travel and related expenses, totalling $21,220. There was no return of service agreement for this training.

In June 2015 the vice president resigned, effective July 17, 2015. On June 12, 2015 the vice president and the president signed a return of service waiver agreement that forgave the $19,993 that the vice president still owed for the MBA program as a result of the return of service agreement. In return, the vice president was to provide 150 hours of transition support and consultation services. The human resources department indicated that the $19,993 was equivalent to 150 hours of the vice president's time.

AFSC's termination guidelines state that the termination date is the last day an employee is physically at work. Annual vacation and banked overtime may not be used to extend the termination date. AFSC's earned time off (ETO) policy requires that ETO hours are to be used for time off before using annual vacation. When paid, ETO is paid out at 1.5 times salary.

RECOMMENDATION 11: ENSURE COMPLIANCE WITH ESTABLISHED POLICIES

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented.
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that do not comply with AFSC's policies

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC should have controls to ensure employees do not reward themselves at public expense. Specifically, AFSC should have processes to:

- develop and comply with effective expense policies
- verify that agreements with employees are properly reviewed and approved
- confirm that its decisions are properly supported and consider cost effectiveness before incurring expenses
- ensure that all employees, including senior executives, comply with AFSC's established policies

OUR AUDIT FINDINGS

KEY FINDINGS

- The vice president training reimbursement agreement did not comply with AFSC's training policy.
- There were weaknesses in the waiver of return of service arrangement.
- Staff did not comply with termination and earned time off policies.

DESCRIPTION	FINDINGS
MBA program training reimbursement agreement	**The training reimbursement agreement was not properly reviewed**—AFSC has a standard template for training reimbursement agreements. We found that important wording in the template, which clarifies when the reimbursement period starts, was not included in the agreement signed by the president and vice president. Finance and legal personnel did not receive the modified training reimbursement agreement to review it before approval. **Calculation not in accordance with policy results in $30,000 shortfall**—AFSC's training policy clearly specifies that the return of service period starts upon completion of the training program. However, the training reimbursement agreement signed between the president and the vice president does not clearly specify when the return of service period starts. As a result of the ambiguity in the training reimbursement agreement, the balance outstanding owed by the vice president at the time of resignation was not calculated in accordance with AFSC's training policy. The calculated outstanding balance of $19,993 would have been approximately $50,000, if it had been done in accordance with AFSC's training policy. AFSC internal audit department also identified that the training reimbursement agreements did not comply with AFSC's training policy.
Repayment of MBA training fees arrangement	**Lack of adequate approval for repayment of training fees arrangement**—On July 31, 2012 the vice president and an HR training employee (one of the vice president's subordinates) signed a repayment of training fees arrangement. We found no evidence that the president approved this arrangement. The repayment of training fees arrangements are normally approved by the human resources department. However, given the conflict of interest due to the vice president's position, this arrangement should have been reviewed and approved by the president or another senior executive at AFSC. **Repayment of training fees not in accordance with training policy**—The $15,000 that the vice president contributed under this arrangement was not calculated using the reimbursement schedule of AFSC's training policy.

DESCRIPTION	FINDINGS
External professional development	**Lack of adequate documentation to explain the business purpose of this training program**—Management was not able to provide us with adequate documentation to explain the business reason for this training before the training expense of $18,112 was incurred. The only documentation for the business purpose for enrolling the vice president in the training was in the vice president's 2014–2015 performance contract, prepared in April 2015—six months after the vice president's enrolment in the program.
Service waiver agreement	**Lack of proper review of the service waiver agreement**—The vice president requested that one of AFSC's external legal advisors draft the service waiver agreement. However, the internal legal counsel was not asked to review the agreement. AFSC's finance department did not verify or review the amount included in the agreement. **Insufficient documentation to support the business purpose of the agreement**—Management was unable to provide adequate documentation to support the business purpose and the specific deliverables required under this agreement. **Vice president was providing consulting services while on paid vacation**—The vice president charged 103 hours against the 150 hours specified in the agreement from June 12, 2015, the last day of work, until July 17, 2015, the effective date of the resignation. In essence, the vice president charged AFSC for consulting services while still an employee of AFSC.
Termination effective date	**Non-compliance with termination policy**—The termination arrangement with the former vice president stipulated an effective date of resignation as July 17, 2015. However, the vice president's last day of work was June 12, 2015. The vice president used banked vacation time to make up the difference. This arrangement did not comply with AFSC's established termination guidelines. Management did not document the justification for deviating from AFSC's established policy.

DESCRIPTION	FINDINGS
Earned overtime paid out on termination	**Payout of overtime was greater than policy allows and not adequately supported**—During the course of our examination in September 2015, management identified an error in the calculation of overtime. The vice president's final payout included a payment of $12,218 for accrued overtime. However, the overtime calculation was not in accordance with AFSC's earned time off policy, resulting in an overpayment of $4,072. Management did not document the justification for deviating from the established policy. Management provided us with an email from the former vice president requesting that staff override the policy based on a discussion with the president. The president asserted that he did not approve the vice president's overtime being paid out in a manner that did not comply with earned overtime policy.
AFSC training policy	**Weaknesses in the training policy**—AFSC's training policy does not specify how to calculate the return of service period but, rather, states that the period can range from 24 to 48 months. This policy fails to make a direct link between the cost of training and the length of the return of service period. Determining the length of the return of service period is overly subjective. The training policy does not have a limit on the maximum funding that can be provided for any single training program. Management should consider setting a limit on the maximum funding that can be provided for any single training program. The policy does not set a threshold to determine when a training reimbursement agreement is required.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of adequate review and approval processes of agreements with its employees, AFSC may not be able to enforce the terms of its agreements and protect its rights. The corporation may pay for expenses that have no business purpose.

Reporting of senior executives' expenses to the board

BACKGROUND

Regular reporting to the board on senior executives' expenses is an important practice that enhances the board's oversight process. In June 2013 we issued two observations to AFSC to:

- improve its documentation of the business purpose supporting travel expenses
- implement a formal process to report senior executives' expenses to the board of directors

RECOMMENDATION 12: STRENGTHEN PROCESSES TO REPORT SENIOR EXECUTIVES' EXPENSES TO THE BOARD OF DIRECTORS

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.

CRITERIA: THE STANDARDS FOR OUR AUDIT

AFSC's board should provide proper oversight over the approval of senior executives' expenses.

OUR AUDIT FINDINGS

KEY FINDING

The board of directors does not receive reports on expenses of the corporation's senior executives.

The board does not receive the information on senior management expenses it needs to provide adequate oversight. A well-functioning process to regularly report to the board on the expenses of senior executives, including training expenses, does not exist.

In relation to findings in the previous recommendation, the board was not aware of the multiple arrangements made by AFSC management with the vice president.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective oversight processes, AFSC is exposed to increased financial and reputational risk. Further, the board will not have the information necessary to consider and potentially challenge expenses that may not be appropriate.

OUTSTANDING RECOMMENDATIONS

AGRICULTURE AND FORESTRY AND HEALTH

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59
(Originally October 2006, no. 12, vol. 1, p. 105; repeated as October 2009, no. 13, p. 114)
We again recommend that the departments of Health and Agriculture and Forestry improve reporting on food safety in Alberta.

AGRICULTURE AND FORESTRY, HEALTH AND ALBERTA HEALTH SERVICES

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111
(Originally October 2006, vol. 1, p. 102)
We again recommend that Alberta Health Services and the departments of Health and Agriculture and Forestry, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

AGRICULTURE AND FORESTRY AND AGRICULTURE FINANCIAL SERVICES CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Systems to Manage the Lending Program—Define oversight responsibilities —October 2016, no. 2, p. 25

We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.

AGRICULTURE FINANCIAL SERVICES CORPORATION

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to Manage the Lending Program—Define strategic objectives, articulate sector credit needs and re-evaluate the relevance of the lending program—October 2016, no. 1, p. 23

We recommend that the Agriculture Financial Services Corporation:

- clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate
- clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities
- develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant

Systems to Manage the Lending Program—Develop a funding model and costing system —October 2016, no. 3, p. 29

We recommend that the Agriculture Financial Services Corporation:

- develop a product-specific government funding model
- develop a costing system capable of allocating, tracking and reporting product-specific costs

Systems to Manage the Lending Program—Monitor the performance of the loan portfolio —October 2016, no. 4, p. 29

We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.

Ensure compliance with established policies—October 2016, no. 11, p. 75

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that did not comply with AFSC's policies

Strengthen processes to report senior executives' expenses to the board of directors —October 2016, no. 12, p. 79

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.

Culture and Tourism

SUMMARY

DEPARTMENT

There is one new recommendation for the Department of Culture and Tourism from the current audit. The department should improve its financial statement preparation processes—see below.

TRAVEL ALBERTA

Travel Alberta implemented its outstanding recommendation to enhance documentation to support senior management expenses—see page 83.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audits

Financial statement preparation

BACKGROUND

The department prepares the financial statements for the ministry, the department and the ministry's agencies, funds and foundations with the exception of Travel Alberta.

Management is responsible for preparing the financial statements and accompanying notes and schedules in accordance with Canadian public sector accounting standards. Management is also responsible for developing appropriate processes and controls for preparing financial statements to ensure all transactions and events are evaluated, analyzed and appropriately accounted for in its financial statements.

RECOMMENDATION 13: IMPROVE FINANCIAL STATEMENT PREPARATION PROCESSES

We recommend that the Department of Culture and Tourism improve its financial statement preparation processes for transactions that do not occur regularly.

CRITERIA: THE STANDARDS FOR OUR AUDIT

Management should prepare and document an appropriate analysis of non-routine transactions. The analysis should include at least one of the following:

- identification of accounting impact based on application of the public sector accounting standards and practices
- identification of appropriate legal authority and actions under the legislation, including any legal implications

OUR AUDIT FINDINGS

KEY FINDINGS

- Management does not have a consistent and effective process to assess the appropriate accounting treatment and legal implications of transactions that do not occur regularly.
- Management did not prepare an analysis of the appropriate accounting treatment for the transfers of net assets of the Government House and Wild Rose foundations. Management did not assess the legal implications of the transfers.
- Management did not perform an assessment of the appropriate accounting treatment for the internal transfers affecting the ministry and its entities.

Accounting for dissolution

Based on Budget 2016, both Government House and Wild Rose foundations are to be dissolved subject to enactment of the appropriate legislation and transfer-of-responsibility regulations. In anticipation of the dissolution, management recorded the transfer of net assets for both foundations in their financial statements as at March 31, 2016. We did not agree with the accounting treatment of these transactions because it did not reflect the substance of the pending dissolution on March 31, 2016. Management reversed the transaction.

Because of the significance and nature of the dissolution, management should have performed an appropriate analysis of applicable legislation and accounting standards and policies before recording these transactions in the financial statements of the foundations.

We found that a legal assessment was not performed to determine potential actions, implications, and appropriate ministerial approvals. Management also did not provide an appropriate evaluation of its accounting treatment of the transfer of net assets for either foundation.

Program transfers

During the year ended March 31, 2016, the department processed a number of transfers to and from related entities. The department applied the same accounting treatment for the transfers by restating prior-period comparative numbers as if the entities impacted had always been assigned these responsibilities.

Normally, when a program transfer occurs there is an assumed transfer of responsibility that requires a restatement of prior-period comparative amounts in the financial statements. However, not all program transfers can be treated in the same way. It is important to understand the nature and context of the transfer to ensure it is accounted for appropriately in the financial statements of the entities it affects.

We found one example where we did not agree with management's restatements of prior-period comparative amounts. Management incorrectly restated comparative amounts for the research funding provided to Travel Alberta in the current year as if it was a program transfer. Management reversed the transactions. Again, management did not provide an assessment of the appropriate accounting treatment for transfers affecting the ministry and its entities.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Transactions that do not occur regularly are inherently risky. Without an appropriate analysis and assessment of such transactions, there is a risk that financial statements are materially misstated and misleading.

TRAVEL ALBERTA

Matters from prior audits

Senior management expenses—implemented

OUR AUDIT FINDINGS

Travel Alberta implemented our 2015[1] recommendation to enhance documentation to support senior management expenses.

Travel Alberta demonstrated sufficient and consistent documentation for the business reasons to support senior management expenses. We examined a sample of senior management expenses for accommodation, hospitality, working sessions and board meeting meals. We found sufficient documentation for the nature and purpose of these expenses.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial statement preparation processes—October 2016, no. 13, p. 81
We recommend that the Department of Culture and Tourism improve its financial statement preparation processes for transactions that do not occur regularly.

TRAVEL ALBERTA

There are no outstanding recommendations to Travel Alberta.

[1] *Report of the Auditor General of Alberta—October 2015*, no. 8, page 75.

Economic Development and Trade

SUMMARY

DEPARTMENT

The Department of Economic Development and Trade should improve its financial reporting process —see below.

ALBERTA ENTERPRISE CORPORATION

Alberta Enterprise Corporation should improve its policies and processes to assess and account for impairment losses—see page 86.

INNOVATION[1]

There are no new recommendations in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from current audits

Financial reporting processes

BACKGROUND

Management of the Department of Economic Development and Trade is responsible for ensuring that the department has effective internal controls and quality review processes in preparing its annual financial reporting. Organizations with weak year-end financial statement preparation processes are likely to experience difficulty preparing timely and accurate periodic financial reports. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year.

RECOMMENDATION 14: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Economic Development and Trade improve its internal controls and quality review processes to ensure prompt preparation of accurate financial reporting.

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have efficient and effective processes in place to ensure accurate reporting of its financial information within the timelines mandated for all Government of Alberta ministries.

OUR AUDIT FINDINGS

KEY FINDING

Management did not produce accurate year-end financial reporting within the Government of Alberta's mandated financial reporting timelines.

[1] Innovation in this chapter includes Alberta Innovates corporations (Bio Solutions, Energy and Environment Solutions, and Technology Futures).

We found accounting and presentation errors that were material to the ministry consolidated financial statements. Errors included expenses recorded in the wrong periods, government reorganization and program transfer amounts, related party transactions balances, salary and benefits disclosures, and various other note disclosure items.

Management corrected the financial statements for the errors we identified. However the root cause of the errors was due to weaknesses in financial reporting controls. Management must improve its processes to produce accurate financial reporting by enhancing its quality review and monitoring processes, developing staff proficiency in areas of complex accounting, and improving documentation of accounting processes, transactions and conclusions.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective financial reporting processes, management risks making critical operating decisions based on inaccurate financial information.

Matters from current audits

ALBERTA ENTERPRISE CORPORATION

Improve policies and processes to account for investment impairments

BACKGROUND

Alberta Enterprise Corporation invests in venture capital funds that finance early-stage companies. As of March 31, 2016, the corporation's investments were recorded at $83.5 million.

Management should record a loss when an investment's fair value declines below cost and when management's analysis indicates that the impairment in value will persist.

RECOMMENDATION 15: ASSESS INVESTMENT IMPAIRMENT LOSSES

We recommend that the Alberta Enterprise Corporation develop and implement policies and procedures to assess investment impairment losses.

CRITERIA: THE STANDARDS FOR OUR AUDIT

The corporation should have policies and procedures to assess investments for impairment.

OUR AUDIT FINDINGS

KEY FINDING

The corporation's policies and processes do not consider when to record an impairment loss on investments.

The corporation does not have a policy specifying when to report an impairment loss on its statement of operations. Further, the corporation does not have documented processes to ensure that management completes impairment assessments consistently and in accordance with accounting standards.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without adequate policies and processes to identify and account for impairments in investment value, management risks making decisions based on inaccurate financial information.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Evaluating international offices' performance—March 2015, no. 16, p. 121
(originally October 2008, p. 324)
We again recommend that the Department of Economic Development and Trade improve the processes management uses to evaluate the performance of each international office.

Improve financial reporting processes—October 2016, no. 14, p. 85
We recommend that the Department of Economic Development and Trade improve its internal controls and quality review processes to ensure prompt preparation of accurate financial reporting.

ALBERTA ENTERPRISE CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting processes—October 2016, no. 15, p. 86
We recommend that the Alberta Enterprise Corporation develop and implement policies and procedures to assess investment impairment losses.

ALBERTA INNOVATES—ENERGY AND ENVIRONMENT SOLUTIONS

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve financial reporting processes—October 2014, no. 19, p. 159
We recommended that Alberta Innovates—Energy and Environment Solutions:

- improve its processes to identify contributions that funders have restricted
- ensure it has incurred eligible expenses before recording the same amount of contributions as revenue in financial statements

Education

SUMMARY

DEPARTMENT

Matters from current and prior audits

There are no new recommendations for the Department of Education in this report. The department implemented processes to improve its information technology change management controls—see below.

In accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions' audited fiscal 2015 financial statements and management letters—see page 90.

We are the appointed auditor of one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions, we examined the management letters of their auditors and the auditors' reports on the financial statements.

NORTHLAND SCHOOL DIVISION NO. 61

There are no new recommendations for the Northland School Division in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the prior audits

Change IT management controls—implemented

OUR AUDIT FINDINGS

The department implemented our 2015[1] recommendation to enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

The department developed new policies and procedures for change management including routine, emergency maintenance, patching modifications, and application upgrades. The new change management process consists of a change advisory board, an emergency change advisory board and an IT advisory board to assess, review, and authorize all significant IT changes. A post-implementation review is now required to assess all IT changes and the achieved results. Policies and procedures are reviewed and updated annually and made available to all staff. The department's staff received training and must complete an annual security course to ensure compliance with security policies and practices.

We examined department's policies and procedures and found the processes adequately deal with all parts of the change management process. We also examined documentation of the training provided to managers and IT staff. We interviewed staff to ensure training was provided in advance of the effective date of the policies. We also tested a planned emergency outage that went through the new emergency change management process and found there to be no issues or inconsistencies. Based on our

[1] *Report of the Auditor General of Alberta—October 2015*, no. 9, page 79.

examination, we concluded that the department has effectively developed and implemented processes for managing emergency changes.

Summary of results—school jurisdiction audited financial statements and management letters

SUMMARY

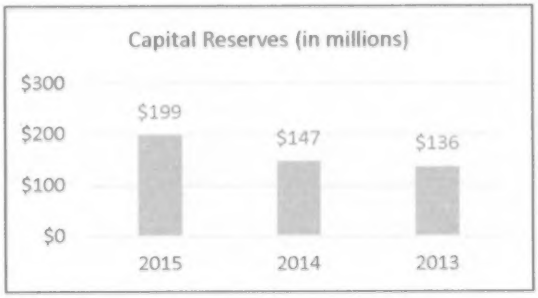
We have completed our Section 19(4) summary of results of school jurisdiction audited financial statements and the management letters provided by their auditors for the year ended August 31, 2015. We have also provided comparative results for the fiscal years ended August 31, 2014 and 2013.

Highlights are:

- One school jurisdiction received a qualified audit opinion on its financial statements (2014–two, 2013–three).

- The net consolidated accumulated unrestricted operating surplus and operating reserves[2] decreased to $499 million (2014–$502 million, 2013–$452 million). No jurisdiction has an accumulated deficit (2014–none, 2013–one).

- Capital reserves[3] increased to $199 million (2014–$147 million, 2013–$136 million).

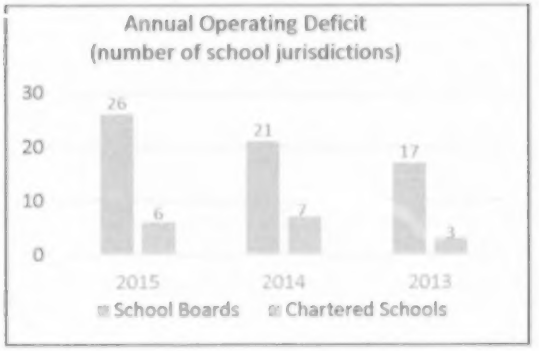


[2] Reserves are an unrestricted surplus that the school trustees have internally restricted for either a planned future operating expenditure or capital expenditure. The trustees restrict the unrestricted surplus into a reserve (or remove restrictions to increase the unrestricted surplus) at their discretion through an approved board of trustees resolution. Operating reserves also include school-generated funds, which are non-discretionary funds raised by the schools for a specific purpose. School-generated funds in 2015 are $41 million (2014–$42 million, 2013–$39 million).

[3] Capital reserves are the funds set aside by the board to meet future capital expenditures. Once the capital reserves are established, the funds cannot be spent on operating purposes without prior ministerial approval.

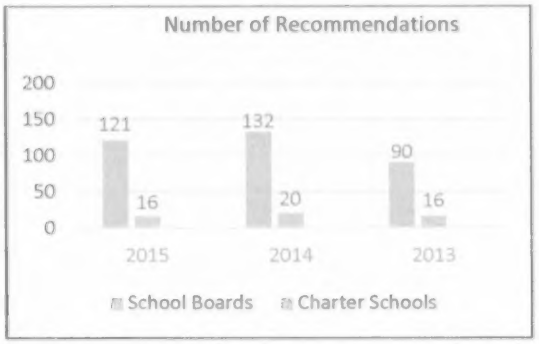
- The number of school jurisdictions that incurred annual operating deficits increased to 32 (2014–28, 2013–20).

  The combined net operating surplus of all jurisdictions was $76 million on a budgeted deficit of $94 million (2014–$81 million on a budgeted deficit of $72 million, 2013–$92 million on a budgeted deficit of $72 million). Over the past 10 years[4] jurisdictions incurred a total net operating surplus of $701 million on a total budgeted deficit of $670 million.



- The total cash, cash equivalents and portfolio investments increased to $1.5 billion (2014–$1.1 billion, 2013–$967 million). Unlike prior years, the current year increase is significantly higher than the increase in the combined unrestricted surplus, operating reserves and capital reserves. The current year increase relates to department funding of future school construction costs.

- The total number of recommendations made to school jurisdictions by their auditors decreased to 137 (2014–152, 2013–106). School jurisdiction trustees should continue to hold their management accountable for continuing to improve identified weaknesses.
- Twenty-five jurisdictions had no recommendations (2014–23, 2013–36).



- There were no significant changes in the type of recommendation made to jurisdictions. There were improvements in the areas of board oversight, segregation of duties and processing goods and services tax. However, school jurisdictions have had the most difficulty in sustaining adequate processes in areas related to financial information review, policies and procedures, purchasing, school-generated funds and payroll.

[4] In 2007 the combined net operating surplus of all jurisdictions was $150 million on a budgeted surplus of $16 million. In 2010 jurisdictions reported a combined net operating deficit of $14 million on a budgeted deficit of $124 million.

BACKGROUND

We are the appointed auditor of one of the school jurisdictions—Northland School Division No. 61. For all other school jurisdictions, we examined the management letters of their auditors and the auditors' reports on the financial statements. Those audits were not designed to assess all key systems of control and accountability. However, if the auditors find weaknesses when auditing the financial statements, they report the weaknesses to management.

The composition of school jurisdictions by fiscal year is as follows:

FISCAL YEAR	SCHOOL BOARDS[5]	CHARTERED SCHOOLS	TOTAL
2015	61	13	74
2014	61	13	74
2013	62	13	75

FINDINGS

Financial reporting

Under Section 151 of the *School Act*, school jurisdiction auditors must send management letters, auditor's reports and audited financial statements to the minister by November 30 of each year.

Auditor's reports—One school jurisdiction (Valhalla School Foundation) received a qualified auditor's report on its fiscal 2015 financial statements (2014–two, 2013–three). In all these instances, the auditors issued a qualified report as they were unable to verify the completeness of gifts, donations and fundraising revenue.

Financial statements—Twenty-six school jurisdictions and six charter schools incurred an annual deficit from operations (2014–21 school jurisdictions and seven charter schools, 2013–17 school jurisdictions and three charter schools). School jurisdictions combined were budgeting to incur annual operating deficits of about $94 million for 2015 as some school jurisdictions planned to use reserves to offset annual operating deficits. Annual deficits from operations are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall. Rather than an overall deficit, school jurisdictions had a combined net annual operating surplus in 2015 of $76 million (2014–$81 million, 2013–$92 million). Over the past 10 years[6] jurisdictions incurred a total net operating surplus of $701 million compared to the total budgeted deficit of $670 million.

Accumulated deficits from operations are not acceptable to the ministry. School jurisdictions with accumulated deficits from operations are expected to work with the department to eliminate the accumulated operating deficit. No school boards had an accumulated deficit from operations as at August 31, 2015 (2014–none, 2013–one). No charter schools had an accumulated deficit from operations in the past three fiscal years.

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[5] The total number of school boards excludes Alberta Distance Learning (ADL). The Ministry of Education requires ADL to submit a separate set of audited financial statements.

[6] In 2007 the combined net operating surplus of all jurisdictions was $150 million on a budgeted surplus of $16 million. In 2010 jurisdictions reported the combined net operating deficit of $14 million on a budgeted deficit of $124 million.

The combined accumulated unrestricted surplus and operating reserves decreased to $499 million (2014–$502 million, 2013–$452 million), or six per cent of the total operating expenses for jurisdictions in fiscal 2015. The department monitors whether the school jurisdiction combined accumulated unrestricted surplus and operating reserves,[7] as a percentage of total operating expenses, are within a reasonable range. Department management judgmentally increased the range for 2015 to 1–5% from the previous range of 1–4%. Forty-seven jurisdictions were above five per cent and no jurisdictions were below one per cent as at August 31, 2015 (2014–57 jurisdictions above five per cent and none below one per cent, 2013–57 jurisdictions above five per cent and two below one per cent).[8] The department implemented a new requirement in 2016 for school jurisdictions to outline their plans for the use of the operating and capital reserves. Department management will monitor the implementation of these plans when it receives the jurisdictions' August 31, 2016 audited financial statements.

The minister, together with department management, has not told school jurisdictions what, if anything, they intend to do with excess reserve balances identified in jurisdictions' 2016 audited financial statements. The department has told us its mechanisms to reduce excess reserve balances include recovering funding from jurisdictions, directing school boards to apply reserves to targeted areas or implementing a short-term overall funding reduction to the system.

The total cash, cash equivalents and portfolio investments increased to $1.5 billion (2014–$1.1 billion, 2013–$967 million). This increase correlates with an increase in deferred revenues for planned school construction costs not yet incurred. The department implemented a new payment process in 2016 to reduce the amounts paid to jurisdictions in advance of construction costs incurred. The department will assess the effectiveness of the payment process when it receives jurisdictions' 2016 audited financial statements.

The net book value of tangible capital assets at school jurisdictions is approximately $5.5 billion (2014–$5.3 billion, 2013–$5.1 billion). These assets are funded through a combination of the schools' accumulated surplus, restricted grant funding, and debt. As at August 31, 2015, school jurisdictions funded approximately $622 million, or 10 per cent, of these assets from unrestricted surpluses (2014–$594 million, 2013–$574 million). School jurisdictions have also set aside capital reserves of $199 million for future capital expenses (2014–$147 million, 2013–$136 million).

Similar to our last two summary reports,[9] we were unable to identify any analysis in the department's annual report of the reasonableness of:

- the unrestricted surplus and operating reserve balances and the expected future performance improvements at jurisdictions from applying these funds
- cash, cash equivalent and portfolio investment balances and their correlation with future plans at the school jurisdictions to apply these funds
- surplus amounts and the expected future budgeted operating surplus/deficit at jurisdictions
- capital reserves relative to the department's future capital planning

Management letter recommendations

There were 137 recommendations made to school jurisdictions for fiscal 2015 (2014–152, 2013–106). Auditors for 25 school jurisdictions did not report any findings or recommendations to management

[7] For the purposes of this analysis, operating reserves excludes school-generated funds as school trustees cannot apply discretion in use of these funds.

[8] As previously reported in the *October 2015 Auditor General Report*, page 83, in 2014, 59 jurisdictions were above four per cent and none below one per cent, and in 2013, 61 jurisdictions were above four per cent and two below one per cent.

[9] *Report of the Auditor General of Alberta—October 2015*, page 84 and *Report of the Auditor General of Alberta —October 2014*, page 119.

(2014–23, 2013–36). Some school jurisdictions significantly improved in the areas of board information, segregation of duties, and processing goods and services tax. The number of school jurisdictions with recommendations related to payroll processes also decreased. However, more school jurisdictions received recommendations in the areas of financial information review and policies and procedures. These two areas, along with adequate processes related to purchasing, school-generated funds and payroll, have posed the most difficulty for school jurisdictions to sustain annually. We encourage all school jurisdiction trustees to hold management of their respective jurisdiction accountable for implementing all process recommendations identified. The department contacts jurisdictions, where necessary, to encourage them to resolve control weaknesses identified in the management letters, particularly recommendations repeated from prior years.

The following is a summary of the audit findings and recommendations reported to school jurisdictions by their auditors for the fiscal years ended August 31, 2015 compared to 2014.

We have grouped our summary of audit findings into the following categories:

- financial reporting and oversight
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits these findings came from were not designed to assess all key control and accountability systems. Our summary of the recommendations made to school jurisdictions identifies trends across the sector. The Department of Education and school jurisdictions can use this information to work together to rectify identified common control weaknesses. Management of an individual school jurisdiction can also use this information to proactively consider the sustainability of the jurisdiction's control environment, particularly where the trend is an increased number of recommendations. We do not identify the school jurisdictions associated with recommendations, as this information is not necessary in order for the department and school jurisdictions to achieve their desired result—establishing sector-wide strong, sustainable internal controls for financial reporting.

Financial reporting and oversight recommendations

Accounting issues—Nine jurisdictions (including three of the ten reported in 2014) should resolve the accounting issues treatment relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition and leases.

Board approval—One jurisdiction (none reported in 2014) failed to ensure that board minutes are approved appropriately.

Board information—One jurisdiction (included in the five reported in 2014) should ensure that the board receives timely financial information to maintain and strengthen overall stewardship.

Budgetary process—Three jurisdictions (including two of the five reported in 2014) should improve their budgetary processes.

Review of financial information—Fourteen jurisdictions (including four of the ten reported in 2014) should improve their review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements, and variances between budget and actual expenditures.

Timeliness of recording financial information—One jurisdiction (the same one as reported in 2014) should ensure that accounting transactions for capital assets and capital grant expenditures, accruals and receivables are recorded accurately and financial statements are prepared on time.

Personnel and staff shortages—Two jurisdictions (not reported in 2014) should implement succession plans or cross-training for key financial positions or review the allocation of staff resources in the accounting function.

Internal control weakness recommendations

Capital assets—Four jurisdictions (including two of the four reported in 2014) should improve the recording and tracking of capital assets.

Cash management—Seven jurisdictions (including three of the five reported in 2014) should improve cash management processes and controls.

Goods and services tax—One jurisdiction (not included in the five reported in 2014) should improve its processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

Payroll—Eleven jurisdictions (including six of the 17 reported in 2014) should improve controls over the administration of employee payroll information, processing of expense claims, application of vacation pay policies and regular reviews of payroll expense.

Policies and procedures—Eleven jurisdictions (including four of the five reported in 2014) should implement, update or follow formal procedures and policies.

Purchases—Twelve jurisdictions (including two of the 13 reported in 2014) should improve controls over the purchase cycle, such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

Segregation of duties—Three jurisdictions (including two of the nine reported in 2014) should segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

School-generated funds—Fourteen school jurisdictions (including five of the 14 reported in 2014) should improve their processes to collect, record, spend and report school-generated funds.

Information technology management recommendations

Computer security—Two jurisdictions (including two of the four reported in 2014) should improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information and backing up data at an off-site location.

Change management—Two jurisdictions (including one of the three reported in 2014) should implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to improve student attendance in Northland School Division: Oversight by the department —March 2015, no. 2, p. 23

We recommend that the Department of Education exercise oversight of Northland School Division by ensuring:

- the division develops and executes an operational plan to improve student attendance
- the operational plan identifies the resources needed and how results will be measured, reported and analyzed

Education & Infrastructure—School-building Program: Clarify roles and responsibilities —April 2016, no. 1, p. 9

We recommend that the Department of Education improve its oversight of the school-building program by:

- working with the Department of Infrastructure to clarify the roles and responsibilities of each department and establishing supporting policies and procedures
- developing clear decision making authorities for the program

Education & Infrastructure—School-building Program: Improve the planning and approval process —April 2016, no. 2, p. 12

We recommend that the Department of Education improve project approvals for new schools and modernizations by:

- implementing a gated approval process
- identifying the approval gates, required deliverables and responsibilities for completion of the deliverables

Education & Infrastructure—School-building Program: Improve systems to manage and control projects—April 2016, no. 3, p. 13

We recommend that the Department of Education improve its systems to manage and control school capital projects by:

- agreeing on project expectations promptly with school jurisdictions and Infrastructure, including scope, budget and key milestones
- developing and implementing change management policies and procedures

Education & Infrastructure—School-building Program: Improve reporting systems and controls —April 2016, no. 6, p. 16

We recommend that the Department of Education define and report on the key performance indicators of the school-building program.

Education & Infrastructure—School-building Program: Match capital funding to project progress —April 2016, no. 8, p. 19

We recommend that the Department of Education improve its cash flow forecasting systems and ensure capital funding requests are supported by assumptions tied to project progress.

Education & Infrastructure—School-building Program: Submit revised plan for approval —April 2016, no. 9, p. 19

We recommend that, if Treasury Board adjusts the Department of Education's funding request, the Department of Education should submit its revised school-building program plan to the Treasury Board for approval. The revised plan should align with the approved funding and should clearly identify the impact on project progress.

EDUCATION AND INFRASTRUCTURE

The following recommendations are outstanding and not yet ready for follow-up audits:

Education & Infrastructure—School-building Program: Improve systems to manage and control projects—April 2016, no. 4, p. 14

We recommend that the departments of Education and Infrastructure improve the planning process by:

- identifying who must review and approve project planning deliverables and formally communicate these approvals to school jurisdictions or the Department of Infrastructure's contractors
- basing oversight of projects managed by school jurisdictions on risk

Education & Infrastructure—School-building Program: Improve reporting systems and controls —April 2016, no. 7, p. 16

We recommend that the departments of Education and Infrastructure improve reporting on the school-building program by:

- defining reporting requirements, including measures to assess project performance
- using a common reporting system that specifies where information will be retained, who will update it and how it will be updated

NORTHLAND SCHOOL DIVISION NO. 61

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to improve student attendance in Northland School Division: Develop plan to improve student attendance—March 2015, no. 1, p. 23

We recommend that Northland School Division develop an operational plan with short- and long-term targets to improve student attendance. The operational plan should include:

- measurable results and responsibilities
- a prioritized list of student-centred strategies, initiatives and programs
- documentation of the costs and resources required to action the strategies, initiatives and programs
- a specific timeline for implementation
- reporting on progress and accountability for improved attendance results

Systems to improve student attendance in Northland School Division: Monitor and enforce student attendance—March 2015, no. 3, p. 30

We recommend that Northland School Division improve its guidance and procedures for schools to:

- consistently record and monitor student attendance
- benchmark acceptable attendance levels
- manage and follow up on non-attendance

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve financial reporting—October 2015, no. 10, p. 86 (originally October 2010, no. 14, p. 134)
We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Energy

SUMMARY

DEPARTMENT

There is one new recommendation for the Department of Energy from the current audit. The department should improve its controls over access to key business systems—see below.

ALBERTA ENERGY REGULATOR

There are no new recommendations to the Alberta Energy Regulator in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audits

User access controls

BACKGROUND

The Department of Energy administers the collection of revenue from non-renewable resources. Employees in the department use various information systems to capture and assess royalty and revenue submissions, and to manage objections, appeals, and royalty collections. Management assigns role-based access to these information systems: an employee's role in the business area determines which systems he or she is assigned to and what level of access is granted.

Documenting each role within each business system, understanding what the role can and cannot do and determining what two roles are in conflict if given to an employee are vital in creating adequate segregation of duties. An effective and efficient system of internal controls includes adequate segregation of duties to minimize the potential for an individual to commit an error or fraud. Segregation of duties is a key control to ensure that errors or irregularities are prevented or detected promptly in the normal course of business.

RECOMMENDATION 16: IMPROVE CONTROLS OVER ACCESS TO KEY BUSINESS SYSTEMS

We recommend that the Department of Energy document conflicting roles within its key business systems and ensure appropriate controls are in place where conflicting roles are identified.

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have effective processes to:

- identify and document what roles are in conflict in its key business systems
- provide access to employees according to their roles and responsibilities and regularly monitor conflicting roles
- implement mitigating controls to reduce the risk from conflicting roles to an acceptable level

OUR AUDIT FINDINGS

KEY FINDINGS

- The department has not documented the conflicting roles that are present in its key business systems.
- The department has not documented its assessment of whether there are appropriate controls in place to reduce the risk from conflicting roles to an acceptable level.

The Department of Energy's business systems have been built to use role-based access. Management assigns roles to employees according to their job requirements. During our assessment of user access controls in key business systems, the department could not demonstrate that there was adequate information available to assess whether the access assigned to employees was appropriate and whether it ensured proper segregation of duties. The department did not document what roles within its key business systems are in conflict. Therefore, the department cannot effectively demonstrate that it has reduced the risks from conflicting roles to an acceptable level.

During our testing we noted that there are instances where the roles given to certain employees allow the employees to update the financial information in key business systems without anyone else being required to authorize the changes. However, we did not identify any instances where the conflicting roles were misused by employees. Management has indicated that the department has detective compensating controls in place; however, these controls are not consistently documented.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not identify the conflicting roles in its key business systems and ensure that there are controls in place to reduce the risk from conflicting roles to an acceptable level, users of business systems could manipulate data and impair its integrity, either by intent or error. Impairing data in this way can have a material impact on the department.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Evaluate and report on royalty reduction program objectives—February 2016, no. 1, p. 18
We recommend that the Department of Energy annually evaluate and report whether the department's royalty reduction programs achieve their objectives.

Improve controls over access to key business systems—October 2016, no. 16, p. 99
We recommend that the Department of Energy document conflicting roles within its key business systems and ensure appropriate controls are in place where conflicting roles are identified.

DEPARTMENT AND ALBERTA ENERGY REGULATOR

The following recommendation is outstanding is not yet ready for a follow-up audit:

Further assess provincially regulated industrial control systems—February 2016, no. 2, p. 29
We recommend that the Department of Energy and Alberta Energy Regulator work together to determine whether a further assessment of threats, risks and impacts to industrial control systems used in provincially regulated oil and gas infrastructure would benefit Alberta.

ALBERTA ENERGY REGULATOR

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to regulate pipeline safety and reliability in Alberta: Use risk management activities to make informed decisions—March 2015, no. 4, p. 46
We recommend that the Alberta Energy Regulator use its risk management activities to make informed decisions on allocating resources and determine the nature and extent of activities to oversee pipelines.

Systems to regulate pipeline safety and reliability in Alberta: Formalize training program for core pipeline staff—March 2015, no. 5, p. 46
We recommend that the Alberta Energy Regulator complete a skills gap analysis and formalize a training program for its core pipeline staff.

Systems to regulate pipeline safety and reliability in Alberta: Identify performance measures and targets—March 2015, no. 6, p. 51
We recommend that the Alberta Energy Regulator identify suitable performance measures and targets for pipeline operations, assess the results obtained against those measures and targets, and use what it learns to continue improving pipeline performance.

Systems to regulate pipeline safety and reliability in Alberta: Implement risk-based compliance process—March 2015, no. 9, p. 59
We recommend that the Alberta Energy Regulator implement a cost effective risk-based compliance process to evaluate the adequacy and effectiveness of pipeline operators' integrity management programs, and safety and loss management systems.

Systems to ensure sufficient financial security for land disturbances from mining: Improve program monitoring—July 2015, no. 3, p. 31
We recommend that the Alberta Energy Regulator, as part of its enterprise risk assessment process, develop and execute on a risk-based plan for its Mine Financial Security Program monitoring activities to ensure it is carrying out the appropriate amount of verification.

Further assess provincially regulated industrial control systems—February 2016, no. 2, p. 29
We recommend that the Department of Energy and Alberta Energy Regulator work together to determine whether a further assessment of threats, risks and impacts to industrial control systems used in provincially regulated oil and gas infrastructure would benefit Alberta.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems to regulate pipeline safety and reliability in Alberta: Review pipeline incident factors —March 2015, no. 7, p. 53
We recommend that the Alberta Energy Regulator:

- expand its analysis of pipeline incident contributing factors beyond the primary causes
- promptly share lessons learned from its investigations with industry and operators

Systems to regulate pipeline safety and reliability in Alberta: Assess current pipeline information —March 2015, no. 8, p. 56
We recommend that the Alberta Energy Regulator complete an assessment of its current pipeline information needs to support effective decision making, and determine the type and extent of data it should collect from pipeline operators, through a proactive, risk-based submission process.

Environment and Parks

SUMMARY

DEPARTMENT

The Department of Environment and Parks should improve its asset management monitoring and recording processes for dam and water management structures—see below.

ALBERTA ENVIRONMENTAL MONITORING, EVALUATION AND REPORTING AGENCY

There are no new recommendations to AEMERA in this report.

NATURAL RESOURCES CONSERVATION BOARD

There are no new recommendations to the NRCB in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Improve asset management monitoring and recording processes for dam and water management structures

BACKGROUND

The Department of Environment and Parks has a large, diverse and complex asset base of dam and water management structures. There are, among others, two important reasons for recording and monitoring these assets. First, the assets represent significant economic resources and the department needs to know how much its assets are worth. The history and value of each asset is tracked in an asset management accounting system used government-wide. Second, the department needs to know the assets' condition and replacement cost. These estimates for replacing the dam and water management structures are recorded in the Environment Infrastructure Management System (EIMS), which is used by the department's engineers who inspect the dams and water management structures. The replacement cost is the amount estimated to completely replace the dam and water management structure to bring it up to a brand new state. More importantly, EIMS tracks the condition of the dam and water management structures and is one source of information to help the department's management assess the book value of each asset. In other words, EIMS tracks indicators that a dam or water management structure has significantly deteriorated, in which case the asset's value may need to be reduced (written down) in the financial records.

Several factors make recording and monitoring the assets complex:

- There may be more than one way to count assets that are themselves made up of component parts: the components could be counted as separate assets or grouped together into one big asset.
- The department needs to estimate how its assets decline in value over time as they are used. For example, a dam that is 20 years old will likely be worth less than a newly built dam, but by how much? This process of decreasing the asset's value as it is being used is called "amortization."

Considerable judgment is required to assess the amortization period—that is, the period after which the asset is considered to have no further value.

- There are conditions that cause the book value of an asset to be impaired. An asset that is impaired (because it is damaged, for example) should be written down in value if the impairment is expected to be permanent. The valuation and assessment of the impairment of dams and water management structures is complex, as it includes engineering assessments of the conditions of the assets and their components.

RECOMMENDATION 17: IMPROVE CAPITAL ASSET MONITORING AND RECORDING PROCESSES

We recommend that the Department of Environment and Parks improve its processes for monitoring and recording dam and water management structure assets by:

- reconciling the Environment Infrastructure Management System with the asset management accounting system so that the assets listed in one reasonably correspond to those in the other
- completing a comprehensive analysis of assets to verify existence, completeness and valuation in order to maintain reliable accounting records
- applying criteria to decide when to write down an asset, and documenting the assessment of such decisions

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have an effective process to identify and appropriately account for the assets recorded in its financial statements. These processes include:

- procedures to ensure that the assets exist and are recorded at the correct values, and to ensure asset lists are complete
- reconciliations of records between the two asset systems to ensure information used by management is reliable
- reviews to assess for impairments, write-downs and sequential betterments
- maintenance of appropriate documentation to confirm proper recording of the asset balances listed

OUR AUDIT FINDINGS

KEY FINDINGS

The department's processes to reliably assess the value of its dam and water management structure assets are insufficient. In particular, the department was not able to:

- compare and align the two systems used for tracking these assets—the Environment Infrastructure Management System and the asset management accounting system
- provide definitive evidence that assets are counted once and only once, and that assets are being amortized based on their appropriate life cycles
- show evidence of a robust asset impairment testing policy

Reconciliation of records between the two systems

The asset management accounting system groups together some assets that the Environment Infrastructure Management System treats as separate. Therefore, the number of assets listed in the asset management system is less than the number listed in EIMS. Further, the asset management system has a less detailed breakdown of the assets than EIMS. Management stated that the two systems were not designed for the same purpose. We agree that there are business reasons for operating two systems. However, management could not present reasons for permitting inconsistencies in the asset groupings used for the two systems. Regardless of business needs, the two systems should be reconciled either by asset level or by grouping.

The Water Projects Management division attempted a few years ago to compare and align the two systems and found that numerous assets from EIMS were not identified in the accounting system (a prior system that was similar to the present asset management system). The department did not continue the investigation, so resolution of the differences remains incomplete. Management stated that dedicated resources were not available to finish comparing and aligning the two systems. The existence of differences increases the risk of misstatements occurring in the values reported for assets.

Management's processes to confirm the existence, completeness and proper valuation of assets

The department uses the asset management system to track and record assets for financial reporting purposes. Because this system has assets grouped with less detail than EIMS, the department was unable to confirm that its asset records are reliable. In particular, the department could not assert that assets are counted only once, and it could not assert that every asset is counted. In addition, management was unable to provide evidence of the various components that make up a grouped asset. Given the relative shortage of information in the asset management system, there is a risk that the assets listed there could include assets that are no longer in service.

The department's management informed us that there are practical constraints in gathering information for assets purchased over many years, including the lack of complete records because of the impact of several government reorganizations. Management explained that historical asset information might not be readily available as it resides in many locations and previous systems, or it may have been destroyed because of record retention requirements. Nevertheless, the department should implement steps to improve the overall reliability of its asset records.

The department currently amortizes the dam and water management structures over 20 to 80 years but has retained no evidence or documentation to confirm that the selected lifespans are appropriate. The department amortizes grouped assets using a single useful life. In practice, grouped assets are evaluated by the department's engineers component by component. These components have different useful lives from the core asset. The department has not evaluated whether it is appropriate to amortize the component assets over the same term as the core asset.

Assessing asset values for impairments and betterments

The government's corporate accounting policy has requirements on how impaired assets are to be reported. If the impairment is expected to be permanent, its value should be written down—that is, the decrease in value should be accounted for. For assets that instead have only temporary impairments, the costs of repairing and maintaining them should be recorded as operating costs. The department has not established criteria or developed its own policy for deciding when to write down impaired assets. We saw no evidence of impairment testing against either pre-established criteria or an impairment policy.

We found that the department is not completely accounting for the costs of betterments. Betterments represent improvements that enhance the service potential of an asset. When an asset is improved, the department is appropriately adding the cost of betterment to the value of the asset. However, because the book value of the replaced component is not removed from the asset records, the value of the department's assets is likely overstated.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective monitoring and recording processes, the department cannot accurately report the book value of assets in its financial statements. If the department does not make the improvements we

recommend, there will continue to be an increased risk that the financial statements will have material misstatements in relation to capital assets.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Sand and gravel: Flat fee security deposit—October 2008, no. 41, p. 362
We recommend that the Department of Environment and Parks assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

Climate change: Public reporting—October 2012, no. 10, p. 38
(originally October 2008, no. 11, p. 101)
We again recommend that the Ministry of Environment and Parks improve the reliability, comparability and relevance of its public reporting on Alberta's results and costs incurred in meeting climate change targets.

Climate change: Improve planning—July 2014, no. 2, p. 41
(originally October 2008, no. 9, p. 97)
We again recommend that the Department of Environment and Parks improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate change actions
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions intensity target for 2020 and the emissions-reduction target for 2050
- corroborating—through modelling or other analysis—that the actions chosen by the ministry result in Alberta being on track for achieving its targets for 2020 and 2050

Climate change: Improve monitoring processes—July 2014, no. 3, p. 44
(originally October 2008, no. 10, p. 100)
We again recommend that for each major action in the 2008 Climate Change Strategy, the Department of Environment and Parks evaluate the action's effect in achieving Alberta's climate change goals.

Sand and gravel: Enforcement of reclamation obligations—July 2014, no. 4, p. 51
(originally October 2008, no. 40, p. 360)
We again recommend that the Department of Environment and Parks improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

Sand and gravel: Quantity of aggregate removed—July 2014, no. 5, p. 52
(originally October 2008, p. 364)
We again recommend that the Department of Environment and Parks develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

Flood mitigation systems: Update flood hazard maps and mapping guidelines —March 2015, no. 10, p. 76

We recommend that the Department of Environment and Parks improve its processes to identify flood hazards by:

- mapping flood areas that are not currently mapped but are at risk of flooding communities
- updating and maintaining its flood hazard maps
- updating its flood hazard mapping guidelines

Flood mitigation systems: Assess risk to support mitigation policies and spending —March 2015, no. 11, p. 78

We recommend that the Department of Environment and Parks conduct risk assessments to support flood mitigation decisions.

Flood mitigation systems: Assess effects of flood mitigation actions—March 2015, no. 13, p. 82

We recommend that the Department of Environment and Parks establish processes to assess what will be the cumulative effect of flood mitigation actions in communities when approving new projects and initiatives.

Systems to regulate dam safety: Develop plan to regulate dams—March 2015, no. 14, p. 90

We recommend that the Department of Environment and Parks develop a plan to regulate dams and report on the results of its regulatory activities.

Systems to regulate dam safety: Improve dam regulatory activities—March 2015, no. 15, p. 92

We recommend that the Department of Environment and Parks improve its dam regulatory activities by:

- maintaining a reliable registry of dams
- obtaining sufficient information to assess the risk and consequences of dam failure
- retaining evidence of regulatory activities performed
- following up to ensure that owners correct deficiencies or manage them until they are corrected

Systems to manage grazing leases: Clarify objectives, benefits and relevant performance measures —July 2015, no. 1, p. 20

We recommend that the Department of Environment and Parks define and communicate the environmental, social and economic objectives it expects grazing leases should provide all Albertans as well as relevant performance measures to monitor and ensure those objectives are met.

Systems to ensure sufficient financial security for land disturbances from mining: Improve program design—July 2015, no. 2, p. 29

We recommend that the Department of Environment and Parks, as part of its regular review of the Mine Financial Security Program:

- analyze and conclude on whether changes to the asset calculation are necessary due to overestimation of asset values in the methodology
- demonstrate that it has appropriately analyzed and concluded on the potential impacts of inappropriately extended mine life in the calculation

Systems to manage the SGE Regulation: Clarify SGE Regulation guidance documents —July 2015, no. 4, p. 43 (originally October 2009, no. 4, p. 46, repeated as November 2011, no. 1, p. 17)

We recommend for a third time that the Department of Environment and Parks clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow its requirements to achieve the Alberta government's emission reduction targets.

Systems to manage the SGE Regulation: Ensure offset protocols meet new standard and improve transparency—July 2015, no. 5, p. 46 (originally November 2011, no. 2, p 23)
We again recommend that the Department of Environment and Parks implement processes to ensure that all approved protocols adhere to its protocol development standard.

Managing Alberta's Water Act Partnerships and Regulatory Activities: Monitor wetland restoration —October 2015, no. 6, p. 45 (originally April 2010, no. 6, p. 71)
We again recommend that the Department of Environment and Parks formalize its wetland restoration relationships and control procedures.

Financial reporting processes—October 2015, no. 11, p. 91
We recommend that the Department of Environment and Parks improve its process for preparing timely and reliable financial statements by:

- improving the quality of documentation and analysis to support financial statement items and disclosures
- preparing reconciliations for key financial statement balances
- scheduling and evidencing management reviews of financial statements, analysis and supporting documentation before finalizing draft financial statements

Improve capital asset monitoring and recording processes—October 2016, no. 17, p. 104
We recommend that the Department of Environment and Parks improve its processes for monitoring and recording dam and water management structure assets by:

- reconciling the Environment Infrastructure Management System with the asset management accounting system so that the assets listed in one reasonably correspond to those in the other
- completing a comprehensive analysis of assets to verify existence, completeness and valuation in order to maintain reliable accounting records
- applying criteria to decide when to write down an asset, and documenting the assessment of such decisions

Management has identified this recommendation as implemented – to be confirmed with a follow-up audit:

Climate change: Outsourced service providers—October 2009, p. 49
We recommend that the Department of Environment and Parks develop controls to gain assurance that data hosted or processed by third parties is complete, accurate and secure. We also recommend that the Department of Environment and Parks formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

DEPARTMENT AND MUNICIPAL AFFAIRS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Flood mitigation systems: Designate flood hazard areas and complete floodway development regulation—March 2015, no. 12, p. 80
To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that the:

- Department of Environment and Parks identify flood hazard areas for designation by the minister
- Department of Municipal Affairs:
  - establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas
  - put in place processes to enforce the regulatory requirements

ALBERTA ENVIRONMENTAL MONITORING, EVALUATION AND REPORTING AGENCY

The following recommendations are outstanding and not yet ready for follow-up audits:

Joint Canada–Alberta Plan for Oil Sands Monitoring: Ensure timely, accurate and transparent public reporting—October 2014, no. 1, p. 26

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency work with the Government of Canada to ensure that public reporting on the joint plan is timely, accurate and transparent.

Joint Canada–Alberta Plan for Oil Sands Monitoring: Improve planning and monitoring —October 2014, no. 2, p. 29

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency:

- implement effective processes for monitoring project status
- develop and implement work plans, with roles and responsibilities and timelines and deliverables, for implementing all key commitments under the joint plan
- clarify what needs to be done to implement any joint plan projects and commitments remaining after March 2015

NATURAL RESOURCES CONSERVATION BOARD

There are no outstanding recommendations to NRCB.

Executive Council

SUMMARY

DEPARTMENT

We have completed our follow-up audit on the Department of Executive Council's system to manage contracts.[1] We repeat our recommendation—see page 53.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Assess risk and improve oversight—October 2012, no. 11, p. 62

We recommend that Executive Council:

- assess the risks to public information assets throughout the government
- determine if the government has adequate IT security policies, standards and controls to mitigate risks
- determine who is responsible and accountable to ensure that public information assets are adequately protected. Specifically:
  - who is responsible for monitoring compliance with IT security requirements
  - who is responsible for ensuring or enforcing compliance with security requirements
  - what actions should be taken when non-compliance is identified
  - how is compliance to security requirements demonstrated

Contracting processes: Improve contracting processes—October 2016, no. 8, p. 55 (originally October 2014, no. 10, p. 62)

We again recommend that the Department of Executive Council improve its contracting processes by documenting:

- the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received

[1] *Report of the Auditor General of Alberta—October 2014*, page 57.

Health

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Health in this report.

ALBERTA HEALTH SERVICES

There are no new recommendations to Alberta Health Services in this report.

Matters from prior audits

The Department of Health has implemented our October 2014 recommendation to improve contract policy and demonstrate compliance—see below.

AHS implemented recommendations relating to:

- at least annually, receive reports from management on the design and effectiveness of controls at the Alberta Alcohol and Drug Abuse Commission (AADAC)—see page 114.
- improving controls around drug purchases—see page 115.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Improve contract policy and demonstrate compliance—implemented

BACKGROUND

In 2014[1] we examined four contracts that the Department of Health entered into to determine whether the department followed its contract policies and whether its decisions to sole source contracts were adequately supported. We identified that the department needed to upgrade its contract policy to ensure its branches consider and document whether or not a project is a phase of an overall project requiring a competitive bid. In addition, the department needed to ensure the contract policy describes the information that should be documented to support sole sourcing and improve its processes to demonstrate it complies with its contract policy.

We found that the department did not consistently follow its policy when entering into contracts and did not clearly document why sole sourcing was appropriate and in compliance with its policy.

OUR AUDIT FINDINGS

The Department of Health implemented our recommendation to improve contract policy and demonstrate compliance. The department revised its contract policy[2] and contract procedure in April 2015 and in January 2015, respectively.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 9, page 58.
[2] Alberta Health Procurement and Contract Policy, revised April 2015.

The revised policy specifically requires that each proposal to sole source be evaluated on a case by case basis and that the reasons be documented. The documentation must include any trade agreement exception, why the exception applies, whether the services involve multiple phases and, if so, how services for future phases will be contracted. It must also document whether the rates are consistent with the current rates paid for similar services and why the contractor was selected.

The deputy minister is required to approve all requests to sole source where the contract value, including all amendments, is greater than $10,000.

The revised policy also complies with the government's Treasury Board Directive on Procurement and Sole Sourcing. This directive took effect on April 1, 2015 and requires departments to publicly disclose quarterly all sole-sourced contracts for services valued at $10,000 or more.

We tested five sole-sourced contracts that were signed in 2015–2016. We found these contracts complied with the revised contract policy and contract procedure. The contract files provided sufficient rationale to support sole-sourcing decisions. Both parties signed the contracts before work began, and the department's contract review committee reviewed the contracts before the start date of the contracts. Although we saw some support for how contract rates were determined for the contracts we tested, we believe that the support could be improved by considering and documenting how the rates compare to relevant benchmarks for similar services.

We also confirmed that the department has publicly disclosed sole-sourced contracts in accordance with the Treasury Board directive requirements.

ALBERTA HEALTH SERVICES

Matters from prior audits

Board governance—Internal control over financial reporting—implemented

BACKGROUND

In 2006[3] we recommended that the board of directors of the Alberta Alcohol and Drug Abuse Commission (AADAC), at least annually, receive reports from management on the design and effectiveness of AADAC's internal controls. Effective April 1, 2009, AADAC was dissolved and its responsibilities were transferred to Alberta Health Services (AHS). Currently, governance responsibilities rest with the AHS board.

We made this recommendation because the AADAC board was primarily engaged in providing policy direction for programs and services. It was not regularly obtaining information from management on the design and effectiveness of internal controls.

Our recommendation further stated that management needed to ensure that all key controls were identified and evaluated as to their effectiveness, and the evaluation's results were reported to the board. This should include controls for:

- internal and external financial reporting
- performance reporting
- compliance with human resource policies, including policies for conflicts of interest
- reporting of employee ethics violations and fraud

[3] *Report of the Auditor General of Alberta—November 2006*, no. 3, page 17.

OUR AUDIT FINDINGS

AHS has implemented this recommendation by providing the AHS board with regular reporting on the effectiveness of internal controls. We obtained evidence that AHS management provides the board with timely and relevant information to allow it to discharge its governance responsibilities over the:

- reliability of internal and external reporting
- status of the monitoring of established performance measures
- quarterly reports related to human resource compliance
- reporting on investigations related to compliance with applicable laws, regulations and internal policies

Approval of drug purchases—implemented

BACKGROUND

In 2009[4] we recommended that AHS improve controls for drug purchases by ensuring they are approved and duties are appropriately segregated. We concluded that invoices were not appropriately approved by an expenditure officer, and there was not an appropriate segregation of duties between purchasers and receivers.

In our 2015 follow-up audit of this recommendation, we found that drug purchases were being appropriately approved. However, we found instances where an appropriate segregation of duties was not maintained.

OUR AUDIT FINDINGS

AHS has implemented this recommendation by establishing a secondary review process in circumstances where a segregation of duties between purchases and the receiver cannot be maintained. We tested 40 items and found no segregation of duties errors.

OUTSTANDING RECOMMENDATIONS

MINISTRY AND DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Electronic health records: User access management—October 2009, p. 80
We recommend that the Department of Health ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

Department's accountability for the Primary Care Networks—July 2012, no. 5, p. 35
We recommend that the Department of Health:

- establish clear expectations and targets for each of the PCN program objectives
- develop systems to evaluate and report performance of the PCN program

Engagement and accountability to Primary Care Network patients—July 2012, no. 7, p. 42
We recommend that the Department of Health proactively inform Albertans which Primary Care Network they have been assigned to, and what services are available through their PCN.

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[4] *Report of the Auditor General of Alberta—October 2009*, page 278.

Centralized support by the department—July 2012, no. 8, p. 43
We recommend that the Department of Health improve its systems to provide information and support to help Primary Care Networks and Alberta Health Services achieve PCN program objectives.

Department's systems to oversee Primary Care Networks—July 2012, no. 9, p. 48
We recommend that the Department of Health improve its systems for oversight of Primary Care Networks by:

- obtaining assurance that PCNs are complying with the financial and operating policies of the PCN program
- ensuring PCN surplus funds are used in a timely and sustainable manner

Oversight and accountability for infection prevention and control—October 2013, no. 1, p. 22
We recommend that the Department of Health:

- determine clear implementation responsibilities of each partner identified under the infection prevention and control strategy and the hand hygiene strategy
- improve its systems to monitor implementation progress and publicly report on the success of both strategies

Chronic disease management: Improve delivery of chronic disease management services—September 2014, no. 1, p. 11
We recommend that the Department of Health improve the delivery of chronic disease management services in the province by:

- defining the care services it expects physicians, Primary Care Networks and Alberta Health Services to provide to individuals with chronic disease
- requesting family physicians to deliver comprehensive team-based care to their patients with chronic disease, through a Primary Care Network or appropriate alternative
- establishing processes to assess the volumes, costs and, most importantly, the results of chronic disease management services delivered by the healthcare providers it funds
- facilitating secure sharing of patients' healthcare information among authorized providers
- strengthening its support for advancing chronic disease management services, particularly among family physicians where the need for better systems and information is most critical

Chronic disease management: Improve delivery of pharmacist care plan initiative—September 2014, no. 7, p. 32
We recommend that the Department of Health improve the delivery of its pharmacist care plan initiative by:

- establishing a formal process to ensure pharmacists integrate their care plan advice with the care being provided by a patient's family physician and care team
- strengthening claims administration and oversight, including requiring pharmacists to submit diagnostic information showing patients qualify for a care plan, and making care plans subject to audit verification by Alberta Blue Cross
- setting expectations and targets for pharmacists' involvement in care plans and evaluating the effectiveness of their involvement on an ongoing basis

Chronic disease management: Strengthen electronic medical records systems —September 2014, no. 8, p. 37

We recommend that the Department of Health strengthen support to family physicians and care teams in implementing electronic medical record systems capable of:

- identifying patient-physician relationships and each patient's main health conditions and risk factors
- tracking patient care plans and alerting physicians and care teams when medical services are due, and health goals or clinical targets are not met
- appropriately and securely sharing patient health information between authorized healthcare providers
- reporting key activity and outcome information for selected patient groups (e.g., diabetics) as the basis for continuous quality improvement

Chronic disease management: Provide individuals access to their personal health information —September 2014, no. 9, p. 41

We recommend that the Department of Health provide individuals with chronic disease access to the following personal health information:

- their medical history, such as physician visits, medications and test results
- their care plan, showing recommended tests, diagnostic procedures and medications, including milestone dates and targets set out in the plan

Crown's right of recovery of healthcare costs from motor vehicle accidents: Clarify objectives of collecting revenue and prepare supporting rationale—October 2014, no. 3, p. 37

We recommend that the Department of Health:

- publicly articulate its objectives in setting the aggregate assessment
- report the extent to which the aggregate assessment recovers the department's calculation of healthcare costs caused by motor vehicle accidents

We also recommend that the Department of Health obtain additional information to demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives.

Crown's right of recovery of healthcare costs from motor vehicle accidents: Calculating the aggregate assessment—October 2014, no. 4, p. 38

We recommend that the Department of Health review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown's associated healthcare costs.

Seniors care in long-term care facilities: Oversight at the provincial level—October 2014, no. 13, p. 91

We recommend that the Department of Health:

- clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery
- improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them
- finish the review of the continuing care health service standards
- implement a mechanism for timely analysis and action on the accommodation cost data

Systems to manage the delivery of mental health services: Use action plan and progress reporting to implement strategy—July 2015, no. 6, p. 63
We recommend that the Department of Health:
- use an action plan to implement the strategy for mental health and addictions
- monitor and regularly report on implementation progress

Health care processes: Establish a proactive check to ensure that individuals with an Alberta healthcare number continue to meet residency requirements—October 2015, no. 12, p. 101
We recommend that the Department of Health improve its processes by establishing a proactive check to ensure that individuals who have been issued an Alberta healthcare number continue to meet the residency requirements specified in the *Alberta Health Care Insurance Act* and *Regulation.*

Health care processes: Enhance processes to check for receipt of services for which physicians billed—October 2015, no. 13, p. 102
We recommend that the Department of Health enhance the processes it uses to check whether:
- patients received the medical services for which physicians billed the department
- payments are being made in accordance with the provisions of the *Alberta Health Care Insurance Act*

HEALTH AND AGRICULTURE AND FORESTRY

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59
(originally October 2006, no. 12, p. 105; repeated as October 2009, no. 13, p. 114)
We again recommend that the departments of Health and Agriculture and Forestry improve reporting on food safety in Alberta.

HEALTH, AGRICULTURE AND FORESTRY, AND ALBERTA HEALTH SERVICES

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111
(originally October 2006, vol. 1, p. 102)
We again recommend that Alberta Health Services and the departments of Health and Agriculture and Forestry, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

HEALTH AND ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Chronic disease management: Improve support of patient-physician relationships —September 2014, no. 2 & 3, p. 18

We recommend that the Department of Health improve its support of patient-physician relationships by:

- requesting all family physicians establish a process to identify their patient panels and which of those patients have chronic disease, and providing them with healthcare data to help them do so
- determining what it considers to be an effective care team size and composition, and working with family physicians, Primary Care Networks and other providers to help build teams to this level

We recommend that Alberta Health Services identify individuals with chronic disease who do not have a family physician and actively manage their care until they can be linked with a family physician.

Chronic disease management: Improve physician care plan initiative —September 2014, no. 5 & 6, p. 26

We recommend that the Department of Health improve its physician care plan initiative by:

- defining its expectations for what care plans should contain and how they should be managed by physicians and care teams
- setting targets for care plan coverage and evaluating the effectiveness of care plans on an ongoing basis
- strengthening care plan administration by ensuring that claims identify qualifying diagnoses, and that care plan billings by individual physicians are reasonable

We recommend that Alberta Health Services coordinate its services to patients with chronic disease with the care plans developed by family physicians and care teams.

ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Capital project monitoring systems—October 2009, no. 32, p. 271

We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:

- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to executive management and the audit and finance committee

AHS accountability for Primary Care Networks—July 2012, no. 6, p. 40

We recommend that Alberta Health Services within the context of its provincial primary healthcare responsibilities:

- define goals and service delivery expectations for its involvement in PCNs
- define performance measures and targets
- evaluate and report on its performance as a PCN joint venture participant

Fees and charges—October 2012, no. 25, p. 123

We recommend that Alberta Health Services:

- reinforce its admissions policies to ensure consistent application
- review its controls over the processes that generate fees and charges revenue, to ensure they are appropriately designed, consistent across regions and aligned with current policies

Contracted surgical facilities—July 2014, no. 6, p. 58 (originally October 2001, p. 135)
We again recommend that Alberta Health Services strengthen its process to monitor the performance of contracted non-hospital surgical facilities.

Chronic disease management: Improve AHS chronic disease management services—September 2014, no. 4, p. 22
We recommend that Alberta Health Services improve its chronic disease management services by:

- assessing the total demand for chronic disease management services across Alberta
- developing evidence to support decisions on how services provided by Alberta Health Services, family physicians, Primary Care Networks and Family Care Clinics should be integrated
- setting provincial objectives and standards for its chronic disease management services
- establishing systems to measure and report the effectiveness of its chronic disease management services

Seniors care in long-term care facilities: Monitoring care at the resident level—October 2014, no. 11, p. 84
We recommend that Alberta Health Services improve the design of its current monitoring activities. AHS should:

- develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation
- develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents

Seniors care in long-term care facilities: Managing performance of long-term care facilities—October 2014, no. 12, p. 88
We recommend that Alberta Health Services improve its system to monitor and manage performance of long-term care facilities. AHS should:

- clearly define which program area within AHS is responsible for managing performance of individual facilities
- establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents
- establish a formal mechanism to escalate compliance action for higher risk facilities

Follow processes for hiring and termination of executives—October 2014, no. 16, p. 136
We recommend that Alberta Health Services follow its human resource processes for hiring and termination of executives.

Information technology control policies and processes—October 2014, no. 17, p. 137 (originally October 2009, no. 29, p. 262)
We again recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

Systems to manage the delivery of mental health services: Integrate mental health service delivery and eliminate gaps in service—July 2015, no. 7, p. 67
We recommend that Alberta Health Services for its own community and hospital mental health and addictions services:

- work with physicians and other non-AHS providers to advance integrated care planning and use of interdisciplinary care teams where appropriate for clients with severe and persistent mental illness who need a comprehensive level of care
- improve availability of mental health resources at hospital emergency departments
- improve its system to monitor and ensure community mental health clinics comply with AHS's expectations for treatment planning and case management
- improve its process to identify and evaluate good operational practices used by local mental health and addictions staff, and deploy the best ones across the province

Systems to manage the delivery of mental health services: Improve information management in mental health and addictions—July 2015, no. 8, p. 75
We recommend that Alberta Health Services make the best use of its current mental health and addictions information systems by:

- providing authorized healthcare workers within all AHS sites access to AHS mental health and addictions clinical information systems
- strengthening information management support for its mental health treatment outcomes measurement tools

Systems to manage the delivery of mental health services: Complete assessment and develop waitlist for Albertans who need community housing supports—July 2015, no. 9, p. 79
We recommend that Alberta Health Services in supporting the work of the cross-ministry housing planning team established under the mandate of the Minister of Seniors:

- complete its assessment and report on gaps between supply and demand for specialized community housing support services for mental health and addictions in the province
- develop a waitlist management system to formally assess the housing support needs of AHS's mental health hospital and community patients and coordinate their placement into specialized community spaces funded by AHS

Develop a detailed plan for implementing risk-based disaster recovery processes —October 2015, no. 14, p. 104
We recommend that Alberta Health Services develop and follow a comprehensive plan for implementing risk-based disaster recovery processes, including the necessary IT infrastructure.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Contracting practices: Internal controls—November 2006, no. 1, p. 14
We recommend that Alberta Health Services management improve controls over contracting by:

- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

Contract documentation—October 2008, p. 312
We recommend that Alberta Health Services develop and implement a sole-sourcing policy for contracts and ensure that sole sourcing is clearly documented and justified. We also recommend that Alberta Health Services ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

Controls over expenses—February 2013, no. 1, p. 24
We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the board

Cleaning, disinfection and sterilization of medical devices—October 2013, no. 2, p. 27
We recommend that Alberta Health Services establish clear oversight and accountability for medical device reprocessing within and across zones to ensure consistent processes and accountability for reprocessing activities in Alberta.

Prevention and control of antibiotic-resistant organisms—October 2013, no. 3, p. 31
We recommend that Alberta Health Services improve its systems to manage risk posed by antibiotic-resistant organisms at hospitals, by:

- developing an evidence-informed approach for evaluating and aligning antibiotic-resistant organism policies and procedures in hospitals
- developing an approach to provide antibiotic stewardship in hospitals across the province

Hand hygiene practices—October 2013, no. 4, p. 38
We recommend that Alberta Health Services improve its systems for hand hygiene by:

- clarifying responsibility and accountability for improving hand hygiene compliance across hospitals
- using available data, on a risk-focused basis, to identify hospital units with poor compliance and take appropriate remedial action
- strengthening the infection prevention and control orientation and training provided to hospital healthcare workers

Human Services

SUMMARY

DEPARTMENT

Human Services—Systems to Manage the Assured Income for the Severely Handicapped (AISH) Program—see page 31.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access control procedures—October 2014, no. 18, p. 151
We recommend that the Department of Human Services improve access control processes for all its information systems, to ensure:

- user access to application systems and data is properly authorized
- user access is disabled promptly when employees leave their employment or role

MINISTRY AND OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve results analysis processes and reporting—February 2016, no. 4, p. 40
We recommend that the Public Trustee and Ministry of Human Services improve the performance reporting for the operations of the Public Trustee.

OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE

The following recommendations are outstanding and not yet ready for follow-up audits:

Supervisory review of client files—February 2013, no. 2, p. 42
We recommend that the Office of the Public Guardian and Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.

Internal audit role—February 2013, no. 3, p. 42
We recommend that the Office of the Public Guardian and Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

Improve and follow policies—February 2013, no. 4, p. 45
We recommend that the Office of the Public Guardian and Trustee:

- review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

Segregation of duties—February 2013, no. 5, p. 47
We recommend that the Office of the Public Guardian and Trustee strengthen its processes for the approval and payment of client expenses or disbursements.

Documentation—February 2013, no. 6, p. 48
We recommend that the Office of the Public Guardian and Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

Determine and manage surplus—February 2016, no. 3, p. 36
We recommend that the Public Trustee develop processes to effectively manage the growth and use of the accumulated surplus in the Common Fund.

Systems to Deliver Child and Family Services to Indigenous Children in Alberta: Enhance early support services—July 2016, no. 1, p. 13
We recommend that the Department of Human Services:

- enhance its processes so that they include the needs of Indigenous children and families in the design and delivery of its early support services
- report to the public regularly on the effectiveness of early support services

Systems to Deliver Child and Family Services to Indigenous Children in Alberta: Ensure a child-centred approach—July 2016, no. 2, p. 17
We recommend that the Department of Human Services improve its systems to:

- ensure the care plan for each Indigenous child requiring intervention services is adhered to and meets the standards of care the department sets for all children in Alberta
- analyze the results of services to Indigenous children and report to the public regularly on its progress in achieving planned results

Systems to Deliver Child and Family Services to Indigenous Children in Alberta: Strengthen intercultural understanding—July 2016, no. 3, p. 24
We recommend that the Department of Human Services continue to enhance its staff training of the history and culture of Indigenous peoples, as well as its training of intercultural understanding. The department should seek the expertise of Indigenous leaders and communities when developing the training.

Systems to Manage the AISH Program: Improve program accessibility—October 2016, no. 5, p. 35
We recommend that the Department of Human Services ensure its application processes are user friendly.

Systems to Manage the AISH Program: Set service standards and improve eligibility procedures and guidelines—October 2016, no. 6, p. 38
We recommend that the Department of Human Services:

- set service standards for application processing times and regularly monitor against these standards
- improve procedures and guidelines to ensure staff apply policy in a consistent manner

Systems to Manage the AISH Program: Improve reporting on efficiency—October 2016, no. 7, p. 42
We recommend that the Department of Human Services improve its processes to measure, monitor and report on the efficiency of the AISH program.

Indigenous Relations

SUMMARY

We again recommend that the Department of Indigenous Relations improve its financial reporting processes—see below.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Estimation processes—repeated

BACKGROUND

In 2014[1] we recommended that the department improve its financial reporting processes to ensure estimates are reasonable and reliably supported. We repeated this recommendation in 2015.[2]

Management within the department must estimate the value of some financial statement balances for which complete information is not available at the time. Making estimates requires good judgment and strong processes to gather, understand and analyze the best information available. Management must also retrospectively examine these estimates and adjust their value when better information becomes available. While estimates in the department are typically simple in nature, the department is responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flood. The department must update estimated flood recovery costs and liabilities and determine which costs continue to be eligible for reimbursement from the Government of Canada. The department also makes payments toward flood projects during the year. The process of regularly reviewing and adjusting estimates helps management make more precise estimates in the future.

We found in 2014 that the department did not have processes in place to assess the unique and complex nature of certain estimates. The department did not have processes to ensure that management had gathered all information relevant to making a reasonable estimate to account for the cost of the 2013 Alberta flood. We found during our 2015 follow-up that the department had improved gathering new information on flood costs. However, the department did not formally analyze if new information it received throughout the fiscal year changed estimation methods and assumptions applied in the original cost estimate. The department also did not document, using up-to-date information, its analysis and conclusions throughout the year on required contingencies and costs eligible for federal disaster recovery program assistance.

We again repeat our recommendation as department management cannot support with documented evidence that it analyzed and concluded on the reasonableness of estimates throughout the fiscal year.

RECOMMENDATION 18: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

We again recommend that the Department of Indigenous Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 14, page 109.
[2] *Report of the Auditor General of Alberta—October 2015*, no. 7, page 69.

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have processes in place to obtain, understand and analyze information that management uses to make estimates in its financial reporting.

OUR AUDIT FINDINGS

KEY FINDING

The department has not documented throughout the year its analysis and conclusions that significant estimates are accurate and complete.

Management continues to make improvements to its estimation process. We found this year that management put in place processes to obtain and share information from specialists and other departments. Management accomplished the sharing of information through various meetings between three management groups as evidenced through documented meeting minutes. The management groups consist of finance staff, assistant deputy ministers and deputy ministers from the departments involved with the recovery work. Budget forecasts are prepared regularly and communicated between the management groups. Management adjusted estimated cost reimbursements from the Government of Canada by using information on the extent of damages to residences. The information came from additional inspections performed by the Alberta Emergency Management Agency.

Management could not provide documentation of its analyses and conclusions completed throughout the year to support decisions on the estimates, such as adjustments to the receivable from the Government of Canada for flood reimbursements. Management completed this analysis and recorded adjustments after year end. The risk to the department by not assessing throughout the year is that decisions may be incorrect if management does not consider all the best information available at the time. Based on our examination during the financial statement audit, we identified no material differences in the year-end analysis, considering the measurement uncertainty disclosures made in the department's financial reporting.

Management could also not provide documented evidence of a retrospective examination of estimates to identify whether adjustments were required during the year. Management should assess actual work completed and the associated costs to help identify adjustments or confirm the validity of the remaining estimate.

The department should have complete processes throughout the year to:

- gather and verify the information it relies on for updating original estimates
- periodically reassess the reasonability and completeness of its financial reporting estimates and disclosures

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Regardless of the complexity of the estimate to be made, management risks making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. Estimates are often material to the decision making processes used in the ministry's financial reporting.

OUTSTANDING RECOMMENDATIONS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting processes—October 2016, no. 18, p. 125
(originally October 2014, no. 14, p. 109, repeated October 2015, no. 7, p. 69)
We again recommend that the Department of Indigenous Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

Management has identified these recommendations as implemented—to be confirmed with a follow-up audit:

Formalize and communicate interpretation of eligible uses—July 2013, no. 1, p. 23
We recommend that the Department of Indigenous Relations formalize and communicate its interpretation of eligible uses of funds.

Improve review process—July 2013, no. 2, p. 24
We recommend that the Department of Indigenous Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Monitor for and correct non-compliance—July 2013, no. 3, p. 26
We recommend that the Department of Indigenous Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Infrastructure

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Infrastructure in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Infrastructure needs: Process to prioritize projects—October 2007, no. 4, vol. 1, p. 57
We recommend that the Department of Infrastructure improve the process to evaluate proposed infrastructure projects that ministries submit.

Infrastructure needs: Improving current information—October 2007, no. 5, vol. 1, p. 59
We recommend that the Department of Infrastructure, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board and Finance can be improved.

Infrastructure needs: Deferred maintenance—October 2010, no. 8, p. 89
(originally October 2007, vol. 1, no. 2, p. 49)
We again recommend that the Department of Infrastructure, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's Capital Plan.

Infrastructure needs: Maintaining assets over their life—October 2010, no. 9, p. 92
(originally October 2007, vol. 1, no. 3, p. 54)
We again recommend that the Department of Infrastructure establish a process that enables public infrastructure assets to be properly maintained over their life.

Education & Infrastructure: School-building Program—Improve reporting systems and controls—April 2016, no. 5, p. 16
We recommend that the Department of Infrastructure improve its systems for publicly reporting on the status of school capital projects.

DEPARTMENT AND EDUCATION

The following recommendations are outstanding and not yet ready for follow-up audits:

Education & Infrastructure: School-building Program—Improve systems to manage and control projects—April 2016, no. 4, p. 14
We recommend that the departments of Education and Infrastructure improve the planning process by:

- identifying who must review and approve project planning deliverables and formally communicate these approvals to school jurisdictions or the Department of Infrastructure's contractors
- basing oversight of projects managed by school jurisdictions on risk

Education & Infrastructure: School-building Program—Improve reporting systems and controls —April 2016, no. 7, p. 16

We recommend that the departments of Education and Infrastructure improve reporting on the school-building program by:

- defining reporting requirements, including measures to assess project performance
- using a common reporting system that specifies where information will be retained, who will update it and how it will be updated

Justice and Solicitor General

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Justice and Solicitor General in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Victims of Crime Fund: Systems to manage sustainability and assess results—Develop and publicly report on a plan for the Victims of Crime Fund program—February 2016, no. 5, p. 46

We recommend that the Department of Justice and Solicitor General:

- develop and approve a business plan with measurable desired results for the Victims of Crime Fund
- publicly report on the results of this business plan

Victims of Crime Fund: Systems to manage sustainability and assess results—Determine best use of Victims of Crime Fund accumulated surplus—February 2016, no. 6, p. 49

We recommend that the Department of Justice and Solicitor General, supported by sufficient analysis, determine an appropriate use of the Victims of Crime Fund accumulated surplus

Office of the Chief Medical Examiner: Contracting transporters of deceased rural Albertans —Develop guidelines for contract requests—July 2016, no. 1, p. 22

We recommend that the Department of Justice and Solicitor General develop guidelines that clearly identify:

- when a program area must provide a business case to support a contract request and what information must be included
- who can make a decision not to require a business case and in what circumstances, and what must be documented to support this decision

Office of the Chief Medical Examiner: Contracting transporters of deceased rural Albertans —Determine when contracted vendors will be used—July 2016, no. 2, p. 25

We recommend that the Department of Justice and Solicitor General determine and include as part of its pre-qualification contract posting process:

- a date after which only vetted and contracted vendors are eligible to provide services in the normal course of business
- circumstances in which it may need to use non-contracted vendors

Labour

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Labour in this report.

WORKERS' COMPENSATION BOARD—ALBERTA

There are no new recommendations to the Workers' Compensation Board—Alberta in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Occupational health and safety: Work Safe Alberta planning and reporting—July 2016, no. 3, p. 41 (originally April 2010, p. 43)

We again recommend that the Department of Labour improve its planning and reporting systems for occupational health and safety by evaluating and reporting on whether key OHS programs and initiatives achieve desired results.

Occupational health and safety: Promoting and enforcing compliance—July 2016, no. 4, p. 43 (originally April 2010, no. 3, p. 39, repeated July 2012, no. 12, p. 83)

We again recommend that the Department of Labour clarify and enforce its procedures to approve giving employers extra time to fix worksite health and safety problems

Legislative Assembly Offices

SUMMARY

There are no new or outstanding recommendations to the Legislative Assembly Office or Officers of the Legislative Assembly in this report.

Municipal Affairs

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Municipal Affairs in this report.

The department has implemented our October 2014 recommendation to improve compliance with its contracting policies—see below.

FINDINGS AND RECOMMENDATIONS

Matters from prior audits

Improve compliance with contracting policy—implemented

BACKGROUND

In October 2014[1] we recommended that the Department of Municipal Affairs:

- document the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- follow proper contract administration and evaluation processes
- update its contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

OUR AUDIT FINDINGS

The Department of Municipal Affairs has implemented our recommendation.

Contract policy

In November 2014 the Department of Treasury Board and Finance issued the Procurement and Sole-sourcing Directive. Some of the significant changes in the new directive include:

- each department must establish a contract review committee to support the Government of Alberta's procurement accountability framework
- unless a trade exception applies, sole sourcing is limited to service contracts valued at less than $10,000 or construction-related goods or services valued at less than $50,000
- the deputy minister must authorize sole-sourced contracts issued under a trade exception
- each quarter, departments must publicly disclose sole-sourced service contracts valued at more than $10,000

In April 2015 the department implemented a new procurement policy that aligns with the directive. The department also clarified responsibilities for compliance with its policy in situations where one department arranges for a contractor to perform services for another department.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 10, page 62. We made this recommendation to both the Department of Executive Council and the Department of Municipal Affairs. We repeat this recommendation to the Department of Executive Council on page 53 of this report.

Rationale for contracting and selecting vendors

The department has updated its contract review form to support its new procurement policy. The form requires contract managers to document the rationale for contracting, including:

- the business need for the service
- the scope of work and deliverables
- a cost-benefit analysis of contracting activities
- justification for sole sourcing

We examined several sole-sourced contracts that the department entered into between April 1, 2015 and December 31, 2015. Some of these contracts related to the procurement of temporary staffing services. Staff within the department were not aware that the new procurement policy and processes applied to temporary staffing services. These contracts for temporary services did not follow the new policy or processes. Management identified this non-compliance in the fall of 2015 and has since documented the rationale for contracting and sole sourcing these contracts. Further, the department has provided communication to staff notifying them that procurement of temporary services falls within the scope of the new procurement policy.

For the remaining contracts tested, we found adequate support for contracting, justification for sole sourcing, documentation of vendor selection decisions, and analysis to support the reasonability of the contracted rate.

Contract administration and evaluation

The department's contract policy places responsibility for contract administration and evaluation activities with the contract manager. Contract administration includes those activities required to manage and monitor contracted services. Contract managers are required to complete a contract completion checklist at the end of each contract. For sole-sourced contracts that we tested, we found that:

- a contract was in place before the contractor provided the services
- deliverables were provided as outlined in the contract
- evaluations had been prepared for contracts that were complete at the time of our follow-up audit

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve systems for updating the estimated disaster recovery program liability —October 2015, no. 16, page 144

We recommended that the Department of Municipal Affairs develop and implement an improved method for updating and supporting its estimated disaster recovery program liability.

Disaster recovery program transition: Implement a transition plan—February 2016, no. 7, page 62

We recommend that the Department of Municipal Affairs implement its transition work plan to improve its disaster recovery program delivery system by:

- obtaining skilled project managers and implementing project management practices that will achieve the objectives outlined in the plan
- improving project oversight to monitor implementation of the plan to ensure desired results are achieved within an acceptable time frame

DEPARTMENT AND ENVIRONMENT AND PARKS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Flood mitigation systems: Designate flood hazard area and complete floodway development regulation—March 2015, no. 12, page 80

To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that:

- the Department of Environment and Parks identify flood hazard areas for designation by the minister
- the Department of Municipal Affairs:
  - establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas
  - put in place processes to enforce the regulatory requirements

Seniors and Housing

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Seniors and Housing in this report.

ALBERTA SOCIAL HOUSING CORPORATION

There are no new recommendations to the Alberta Social Housing Corporation in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Seniors care: Effectiveness of the Seniors Lodge Program and determine future needs —October 2014, no. 20, p. 20 (originally October 2005, no. 12, p. 66)

We again recommend that the Department of Seniors:

- improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems to deliver affordable housing grants: Improve monitoring processes—July 2013, no. 12, p. 90

We recommend that the Department of Seniors improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:

- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

Systems to deliver affordable housing grants: Develop an evaluation system—July 2013, no. 13, p. 92

We recommend that the Department of Seniors improve its evaluation processes by:

- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

ALBERTA SOCIAL HOUSING CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Review housing management body cash reserve policy—October 2013, no. 11, p. 145

We recommend that the Alberta Social Housing Corporation review the housing management body cash reserve policy to determine if the policy continues to meet its objective of providing appropriate short-term operational cash flow requirements to the housing management bodies.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Social housing contracting policy—November 2011, no. 17, p. 120
We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

Service Alberta

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Service Alberta in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Access and security monitoring of the revenue application systems—October 2008, p. 346
We recommend that the Department of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

IT disaster recovery program: Improve recovery of critical information technology applications —October 2014, no. 5, p. 45
We recommend that the Department of Service Alberta, with support from the Deputy Ministers' Council:

- identify the most critical IT applications throughout all government entities
- identify the times, after a disaster, that critical IT applications must be recovered
- ensure that there are tested plans and adequate resources to recover critical IT applications within those times

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

System conversion process—October 2008, p. 349
We recommend that the Department of Service Alberta document its review of actual system conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

Status of Women

SUMMARY

DEPARTMENT

There are no new or outstanding recommendations to the Department of Status of Women in this report.

Transportation

SUMMARY

There are no new recommendations to the Department of Transportation or the Transportation Safety Board in this report.

The department has implemented processes to document its valuation of donated assets—see below.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Donated assets—implemented

The department has implemented our 2010 recommendation[1] to improve processes to value donated assets.

Department management has implemented the government-wide donated assets policy and processes that authorize the deputy minister or designate to accept donations. The policy specifies how an individual within the department should determine the value of the donation. Once the donor has transferred ownership of the asset, the department will issue a tax receipt in accordance with the *Income Tax Act*, if the transfer is voluntary and provides no benefit to the donor.

We could not test the operating effectiveness of the new processes as the department has not received any donated capital assets since 2010. We have observed this policy and process on valuing donated assets and issuing tax receipts applied successfully in other Alberta government departments. We will examine the operating effectiveness of the department's application of the process as part of our financial statement audit work after the department receives its next donation.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for follow-up audit:

Commercial vehicle safety: Progressive sanctions—July 2014, no. 7, p. 70
(originally October 2009, no. 14, p. 127)
We again recommend that the Department of Transportation enforce compliance by carriers who persistently fail to comply with rules and regulations.

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[1] *Report of the Auditor General of Alberta—October 2010*, page 197.

Treasury Board and Finance

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Treasury Board and Finance in this report.

The department has implemented our recommendation related to disclosure of termination benefits paid—see below.

ALBERTA GAMING AND LIQUOR COMMISSION

There are no new recommendations to the Alberta Gaming and Liquor Commission in this report.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

There are no new recommendations to the Alberta Investment Management Corporation in this report.

The Alberta Investment Management Corporation has implemented our recommendations related to valuing life settlement investments and client financial reporting requirements—see page 150.

ATB FINANCIAL

There are no new recommendations to ATB Financial in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Disclosure of termination benefits paid—implemented

BACKGROUND

In 2009[1] we recommended that the Department of Treasury Board and Finance increase transparency of executive termination benefits expenses by adopting disclosure practices for Alberta public agencies.

OUR AUDIT FINDINGS

The department has implemented our recommendation by revising its guidance to Alberta public agencies on disclosure of executive termination benefits in their financial statements. We have reviewed the guidance and found that it now requires disclosure of executive termination benefits.

[1] *Report of the Auditor General of Alberta—October 2009*, no. 2, page 29.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from prior audits

Valuing investments in life settlements—implemented

BACKGROUND

In 2014[2] we recommended that AIMCo ensure that its Statement of Investment Principles and Practices is applied when valuing and accounting for its life settlement investments. The initial value that AIMCo reported for a given life settlement was not the price AIMCo paid for it. Instead, the value was generated by a valuation model. At the time of purchase, the investments were recorded at an amount higher than the purchase price, therefore overvaluing the investment.

In December 2014[3] AIMCo modified its method of valuing life settlements. In 2015 we reported that the new method was reasonable but that AIMCo should have a method to update its discount rates with changes in the market. AIMCo also needed to update the underwriting on a portion of its policies.

OUR AUDIT FINDINGS

AIMCo has implemented our recommendation by:

- updating its discount rate used in it valuations by engaging a data provider to value a sample of policies based on recent market data
- completing the underwriting for most of its policies and extrapolating the results to the remaining policies

We tested AIMCo's updated method to value the investments and concluded that it was reasonable.

Identify client financial reporting requirements—implemented

BACKGROUND

In 2010[4] we recommended that AIMCo identify financial reporting requirements in its investment management agreements with clients and meet with clients to understand their financial accounting requirements and the investment related information they need to prepare financial statements.

OUR AUDIT FINDINGS

AIMCo has implemented our recommendation by meeting with clients periodically to discuss financial reporting needs and performing quarterly reviews of upcoming changes to accounting standards.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Chief executive officer: Guidance—October 2008, no. 1, p. 27

We recommend that the deputy minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

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[2] *Report of the Auditor General of Alberta—October 2014*, no. 25, page 199.
[3] *Report of the Auditor General of Alberta—October 2015*, page 158.
[4] *Report of the Auditor General of Alberta—October 2010*, no. 17, page 156.

Chief executive officer: Accountability—October 2008, no. 2, p. 29
We recommend that the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers, who should then hold boards of directors accountable for their decisions.

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32
We recommend that the Department of Treasury Board and Finance consider applying the new private-sector compensation disclosure requirement to the Alberta public sector.

Public agencies: Executive compensation practices—October 2009, no. 1, p. 23
We recommend that the deputy minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

Improve ministry annual report processes—July 2012, no. 10, p. 65
We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67
We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

Policies designed to achieve plan objectives—February 2014, no. 1, p. 24
We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with:

- tolerances for the cost and funding components
- alignment between plan objectives and benefit, investment and funding policies
- pre-defined responses when tolerances are exceeded or objectives are not met

Risk management system—February 2014, no. 2, p. 26
We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.

Sustainability support processes—February 2014, no. 3, p. 28
We recommend that the Department of Treasury Board and Finance:

- validate the objectives for the pension plan sustainability review with stakeholders
- evaluate and report on how each proposed change meets the objectives for the review
- cost and stress test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans
- conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention
- prepare a detailed implementation plan for the changes

Results analysis reporting: Guidance, training and monitoring needed—July 2014, no. 1, p. 18
We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Collection of outstanding corporate taxes: Maintain policies and train staff —October 2014, no. 6, p. 51
We recommend that the Department of Treasury Board and Finance:

- update and maintain its policies and procedures for tax compliance officers
- review its training program to ensure it provides relevant and ongoing training to tax compliance officers

Enterprise risk management systems—October 2014, no. 22, p. 194
We recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.

Compliance systems for unfiled corporate income tax returns—October 2015, no. 17, p. 156
We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Evaluate cash management for efficiency and economy—February 2016, no. 8, p. 77
We recommend that the Department of Treasury Board and Finance:

- evaluate how it can use excess liquidity within government-controlled entities to reduce government debt and minimize borrowing costs, and implement mechanisms to utilize excess liquidity
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it remains a relevant cash management tool

Develop policies to prevent early payment of grants and an accumulation of large cash balances —February 2016, no. 9, p. 79
We recommend that the Department of Treasury Board and Finance issue policies and guidance for departments to monitor the working capital needs of government-controlled entities to ensure departments only provide cash when needed

Implement and use information technology to manage cash—February 2016, no. 10, p. 82
We recommend that the Department of Treasury Board and Finance implement an integrated treasury management system to manage treasury functions and processes, including government-wide cash pooling and management.

Use leading banking and related practices and evaluate cost benefits of bank accounts —February 2016, no. 11, p. 85

We recommend that the Department of Treasury Board and Finance work with departments to implement leading banking practices and evaluate the benefits of existing bank accounts compared to the costs of administering them, and make changes where the costs exceed the benefits.

Improve policies for payments—February 2016, no. 12, p. 86

We recommend that the Department of Treasury Board and Finance:

- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvements
- ensure that cost recoveries between government entities consider costs and benefits, and a transaction threshold

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Oversight of premier's office expenses and use of government aircraft—August 2014, no. 1, p. 19

We recommend that the Treasury Board:

- establish a process to provide oversight through monitoring of the Office of the Premier's expenses and usage of government aircraft
- consider what type of oversight should be used for the expenses of ministers' offices

Collection of outstanding corporate taxes: Develop internal and external performance measures and targets—October 2014, no. 7, p. 52

We recommend that the Department of Treasury Board and Finance develop comprehensive performance measures and targets for tax collections and determine which to report publicly.

Collection of outstanding corporate taxes: Improve management information and analyze data periodically—October 2014, no. 8, p. 54

We recommend that the Department of Treasury Board and Finance:

- update its management reports to include additional information on the status of tax collection files and the success of its various collection activities
- periodically analyze the characteristics of the corporate taxes outstanding to identify potential changes to legislation, policies and collections strategies
- deal with the backlog of files submitted for write-off and low value accounts

Improve access controls over the tax and revenue administration systems —October 2014, no. 23, p. 195

We recommend that the Department of Treasury Board and Finance improve the security of its tax and revenue information systems to ensure that it:

- assigns access based on job roles and responsibilities
- defines, monitors and enforces its rules for segregation of duties
- periodically reviews if access to its systems remains appropriate

Corporate tax refunds—October 2014, no. 24, p. 197

We recommend that the Department of Treasury Board and Finance approve tax refunds before making payments in accordance with the requirements of the *Financial Administration Act*.

ATB FINANCIAL

The following recommendations are outstanding and not yet ready for follow-up audits:

Payment card industry—October 2012, no. 31, p. 149
We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

Borrower risk ratings—October 2013, no. 14, p. 158
We recommend that ATB Financial fix the borrower risk ratings in the banking system.

Service auditor reports—October 2014, no. 26, p. 202 (originally October 2009, p. 227)
We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls

AUDITOR GENERAL
Alberta

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

GLOSSARY

Accountability for results The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set and communicate measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

Accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit Work an auditor does to express an opinion on the reliability of financial statements.

Audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor A person who examines systems and financial information.

Auditor's opinion An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report An auditor's written communication on the results of an audit.

Business case An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives.

Capital asset A long-term asset.

COBIT Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical matters, control needs and performance measurement requirements.

COSO Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five private sector organizations and is dedicated to the development of frameworks and guidance on risk management, internal control and fraud deterrence.

CPA Canada Abbreviation for Chartered Professional Accountants of Canada, the national professional accounting body established to support a unified Canadian accounting profession. It replaces the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA-Canada).

Criteria Reasonable and attainable standards of performance that auditors use to assess systems or information.

Cross-ministry A section of this report covering systems and problems that affect several ministries or the whole government.

Crown Government of Alberta.

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Disclaimer of opinion The auditors report they are unable to express an opinion on the subject matter because they have not been able to obtain evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management's systems, controls and practices.

Enterprise risk management (ERM) The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) ERP integrates and automates all data and processes of an organization into one comprehensive system. ERP may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERP achieves integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense The cost of a thing over a specific time.

IFRS International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Chartered Professional Accountants of Canada. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP Abbreviation for "generally accepted accounting principles," which are established by the Chartered Professional Accountants of Canada. GAAP are criteria for financial reporting.

Governance A process and structure that brings together capable people and relevant information to achieve results (the cost effective use of public resources).

Government business enterprise A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit A group of auditors within an organization that assesses and reports on the adequacy of the organization's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources and effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision makers.

Misstatement A misrepresentation of financial information due to mistake, fraud or other irregularities.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Oversight The job of:
- being vigilant,
- checking that processes/systems, including the accountability for results system, are working well, and
- signalling preferred behaviour,

all in the pursuit of desired results.

Performance measure Indicator of progress in achieving a desired result.

Performance reporting Reporting on financial and non-financial performance compared with plans.

Performance target The expected result for a performance measure.

PSAB Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

PSAS Abbreviation for Public Sector Accounting Standards, which are applicable to federal, provincial, territorial and local governments.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Review Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

Risk Anything that impairs an organization's ability to achieve its goals.

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, the nature of the items in the population and the specific audit objectives for which sampling is being used.

Standards for systems audits Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Chartered Professional Accountants of Canada.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of Subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Chartered Professional Accountants of Canada. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to the criteria. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry or organization must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, farm incomes, etc. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

AUDITOR GENERAL
Alberta

Results Analysis Report for the Year Ended March 31, 2016

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2016

Mr. David Shepherd, MLA
Chair
Standing Committee on Legislative Offices

Office of the Auditor General of Alberta
Results Analysis Report for the Year Ended March 31, 2016

I am honoured to send you this results analysis report on the operations of the office for the fiscal year April 1, 2015 to March 31, 2016.

[Original signed by Merwan N. Saher FCPA, FCA]
Auditor General
Edmonton, Alberta
June 30, 2016

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*including performance measures (Schedule 2, page 213)

ACCOUNTABILITY STATEMENT

This results analysis report of the Office of the Auditor General of Alberta summarizes and analyzes the work of our office for the fiscal year ended March 31, 2016.

In this report we explain how we used Albertans' money as the independent auditor of the Government of Alberta. We are reporting against our 2015–2016 business plan, which included our office's strategies and priorities for fiscal 2016.

In the year ended March 31, 2016 the office issued three public reports:

- July 2015
- October 2015
- February 2016

These reports focused on our systems auditing work. In addition, there were 146 separate auditor's reports issued on the financial statements of Alberta government organizations, which encompassed $50 billion of spending and the related annual revenue.

We believe this results analysis report, which includes our independently audited 2015–2016 financial statements, presents our operations and results in a complete, fair and balanced manner.

[original signed by]

Merwan N. Saher FCPA, FCA
Auditor General
June 30, 2016

[original signed by]

Ruth McHugh MBA, FCPA, FCMA, ICD.D
Chief Operating Officer
June 30, 2016

RESULTS MANAGEMENT FRAMEWORK

This results analysis report summarizes the Office of the Auditor General of Alberta's achievements in the year ended March 31, 2016 and identifies lessons we have learned and plan to incorporate into our business. It is the key annual public performance report prepared under the office's results management framework, which integrates three central processes—governance, oversight and accountability for results.

Effective results management starts with governance—the structure and processes we use to bring together capable people and relevant information to achieve cost effective results.

Oversight is the glue that holds our results management framework together. By applying good oversight we will know if we are managing our resources cost effectively in producing our audit results. Our team of management leaders exercises oversight and the pursuit of desired results by:

- being vigilant and providing watchful care for the use of financial and human resources
- checking that our processes and systems are working well, including our system to ensure accountability for how effectively we use our resources
- modelling and signalling preferred behaviours through mentorship and by example

Accountability for results requires management to show continuous improvement in the context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we follow a clear process of accountability for results.

1. Set and communicate measurable results and responsibilities.
2. Plan what needs to be done to achieve results.
3. Do the work and monitor our progress.
4. Identify and evaluate our results—and provide feedback for continued improvement.
5. Publicly report on the results of our work.

The results management framework outlines a formal process in which we can learn from what we are doing so that we can do better in the future. The framework also prompts us to feed the analysis back into our business planning and processes. The three parts—governance, oversight and accountability for results—work together to produce effective results.

OUR BUSINESS

OUR MANDATE

The Office of the Auditor General of Alberta serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of and accountability practices for the public resources entrusted to it. Under the *Auditor General Act*, the auditor general is the auditor of every ministry, department, regulated fund and most provincial agencies: in all, 146 entities for 2016.

OUR AUDITOR GENERAL

On April 7, 2016, the Legislative Assembly reappointed Auditor General Merwan Saher for a two-year period that will conclude in April 2018. During the six years of his initial appointment, the auditor general has issued over 950 independent auditor's reports on financial statements prepared by Alberta government organizations. He has also released 19 public reports focused on systems audits, which included 124 stand-alone (new and follow-up) systems auditing reports and 306 new recommendations for change and improvement.

> *"I was pleased to receive confirmation of my reappointment for two years as auditor general. The office's leadership team will continue with our plans and actions to implement several key strategic initiatives in these challenging economic times and improve the office's performance results. I am certain Albertans will be the overall winner from our efforts."*
>
> Merwan Saher, Auditor General

OUR VISION, MISSION AND VALUES

We carry out our work in accordance with our vision, mission and values.

Vision

Making a difference in the lives of Albertans.

Mission

Identifying opportunities to improve the performance of and confidence in the public service.

Values

Trust—We earn it with everything we say and do. We are accountable for our actions.

Respect—Everyone has the right to be heard and deserves to be treated with dignity and courtesy.

Teamwork—With integrity, we work together to generate better solutions.

Growth—We view individual success as professional growth together with a fulfilling personal life. We value both.

The overarching qualities and attitudes inherent in our vision, mission and values guide the office's operations within its results management framework.

The office leadership team's four interrelated areas of focus are strategy, people, results and learning. Through governance, oversight and accountability for results in these focus areas, the leadership team requires our audits to be:

- Relevant—Our work must be relevant to the Legislative Assembly and Albertans.
- Reliable—The Legislative Assembly and Albertans must be able to count on our work.
- Reasonable cost—We must manage costs in producing relevant and reliable reports.

Optimizing the congruence (i.e., the degree and balance) among these three, sometimes competing, objectives helps focus our planning, operational and evaluation decisions. Managing our risks through these objectives contributes to maintaining the credibility of our office within government and with Albertans.

WHAT WE DO

Our core business is legislative auditing. We have two distinct lines of business designed to provide expert auditing of the government's:

- financial statements
- management systems and processes (systems auditing)

Periodically, at the request of an organization we audit, we may also provide some limited research services or give advice for consideration on a proposed course of action under review. Additionally, we support the all-party Standing Committee on Public Accounts in holding government accountable for the cost effective use of public resources.

As legislative auditors, we have a profound understanding of the environment we are auditing, including performance audit standards, management control systems, performance reporting and accountability for results. We also have the ability to communicate the complex technical matters we encounter in our audits in an understandable manner. This ability allows us to be effective in delivering our messages, conclusions and recommendations to the Legislative Assembly and Albertans.

Financial statement auditing

Our recurring annual audits of financial statements, including the consolidated financial statements of the government, provide the Legislative Assembly and the people of Alberta with assurance on the quality of government's financial reporting. In support of each auditor's report, we carry out procedures to identify significant risk areas, understand key internal controls and substantiate financial statement amounts. We also examine the completeness and appropriateness of financial statement note disclosures.

We leverage and build on our knowledge of government entities' operations developed through our financial statement audits to assist in carrying out our systems auditing work.

Systems auditing

Our systems audits are of two types. In a stand-alone systems audit, we examine major programs or initiatives that a government organization undertakes to achieve its goals. The second type of systems audit is generally a direct by-product of our financial statement audits. These systems audits are usually focused on operational areas identified for improvement such as governance and accountability for results, internal control over financial management, information technology or performance reporting.

Systems audit reports provide information, findings and recommendations designed to promote answerable, honest and productive public service, encouraging best practices and accountability for results. We work to answer the question, "Does the organization have the systems, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs. If we find that an organization could improve its systems, processes or controls, we make recommendations to management.

OUR INDEPENDENCE

Our independence from those we audit ensures our work is objective—based on facts, not preconceived opinions. The independence requirement is symbolized through the appointment of the auditor general by the Legislative Assembly and our liaison with the assembly through the all-party Standing Committee on Legislative Offices. A primary element of the relationship is the assembly's prerogative to authorize financing of the office's operations.

Our business practices are designed to ensure that our staff remain free of any association that could potentially impair their objectivity.

HOW WE REPORT ON OUR WORK

The auditor's report that accompanies the financial statements of each government organization provides the auditor general's opinion on whether management's financial statements are presented fairly, in accordance with the appropriate standards. Our audit reports on financial statements are included in the annual reports published by ministries and their related entities.

For systems audits, we make our findings and recommendations public in auditor general reports to the Legislative Assembly. Once the Government of Alberta has acted on our audit recommendations, we carry out follow-up audits to confirm that our recommendations have been implemented. Ideally, implementation by management and our follow-up reporting on the appropriateness of their implementation are completed within three years of each original recommendation. The results of the follow-up audits are also included in the auditor general's reports to complete our reporting to Albertans.

OUR STRATEGY

In our 2015–2016 business plan we set out to perform more added-value systems auditing work without compromising our financial statement auditing responsibilities. Anchored by the *Auditor General Act*, we believe performing more added-value systems auditing work aligns with Albertans' need to know whether government is using their resources wisely.

During 2016 that strategy was refined and focused. In our 2016–2017 business plan, the strategy is to deliver the right mix of relevant and reliable audit products at a reasonable cost. We believe a mix of 30 per cent of our resources devoted to systems auditing and 70 per cent to financial statement auditing is best for Albertans.

In arriving at this mix, we considered our paramount role as the auditor of all government ministries, departments, funds and most provincial agencies. Providing audit opinions on the financial statements of these entities is fundamental and accordingly calls for the majority of our resources.

Capacity analysis indicates the mix of 30 per cent systems auditing and 70 per cent financial statement auditing will provide a manageable number of valuable recommendations to the Government of Alberta. In addition to considering our office's capacity for systems auditing, we considered the government's capacity to implement our recommendations (and also allow for follow-up audits to establish that implementation was appropriate) when setting the 30:70 resource mix. Our goal is to achieve a sustainable resource mix of 30:70 by March 31, 2018.

OUR FINANCIAL RESULTS

In our business plan and budget for 2016, we allocated operating expenses of $26.9 million (including amortization of tangible capital assets) between our two core lines of business. This allocation was aligned with the government's 2015–2016 strategic plan priorities (subsequently restated to match the government organizational structure at March 31, 2016).

Our budget and actual costs are summarized in Schedule 1 of our financial statements on page 212. Some discussion of significant cost variances to budget and prior-year results follows.

In 2016 our financial statement auditing line of business cost was $1.4 million (seven per cent) below budget and $1.1 million (six per cent) lower than last year. The cost reductions reflect our continued focus on audit project management and results analysis to find and incorporate audit efficiencies, with the intent to redeploy the freed up resources to systems audits. Significant actions include the discontinuation of work on performance measures and stretch-cost target setting for our financial statement audit projects.

In 2016 we performed more systems auditing work than originally planned. Therefore, systems auditing costs exceeded budget by $301,000 (four per cent) and were comparable to last year. Certain planned systems audits were delayed, and we initiated three unbudgeted externally requested systems audits. The results from one of the externally requested audits was reported in April 2016 and the other two are expected to be reported in July 2016.

Office performance measure

Percentage of costs dedicated to systems/financial statement auditing

In pursuit of our strategy to perform more systems audit work and our goal of a sustainable cost mix of 30 per cent systems auditing and 70 per cent financial statement auditing, our 2016 resource allocation target was 27 per cent systems auditing and 73 per cent financial statement auditing. Our actual result was 29 per cent systems auditing and 71 per cent financial statement auditing, better than our target mix and the mix in the previous year.

To build on our improved cost ratio and ensure it is sustainable, we will continue to focus on audit project management with the intention to redeploy resources to additional systems audit work.

Percentage of total expenses	Prior-year actual results				Target	Actual
	2012	2013	2014	2015	2016	
Financial statement auditing	79%	76%	77%	72%	73%	71%
Systems auditing	21%	24%	23%	28%	27%	29%
	100%	100%	100%	100%	100%	100%

Over the past five years, our results have shown a systematic trend toward delivering the right mix of relevant and reliable audit products at a reasonable cost. Our 2016 results, combined with our plans to develop a multi-year program of systems audit work, demonstrate that our 2018 target of 30 per cent systems auditing and 70 per cent financial statement auditing is both achievable and sustainable.

We received an unqualified auditor's report on our externally audited 2016 financial statements. The auditor did not identify any recommendations to improve our financial processes and controls, nor were there any recommendations made or outstanding from previous years.

FINANCIAL STATEMENT AUDITING RESULTS

We audit the consolidated financial statements of the Government of Alberta, as well as every ministry, department, regulated fund and most provincial agencies. The auditor general's report for each of these organizations provides his opinion on whether the financial statements are presented fairly in accordance with the appropriate financial reporting framework, usually public sector accounting standards. These recurring annual audits provide independent assurance on the government's financial reporting to the Legislative Assembly.

REPORTS

The auditor general issued 146 unqualified auditor's reports on financial statements between April 1, 2015 and March 31, 2016 (2015–149). No qualified auditor's reports were issued in either 2015 or 2016.

Appendix A lists the entities whose financial statements we audited and reported on during our 2016 fiscal year.

Office performance measures

Alberta's consolidated financial statements—Report by June 30

We strive to issue the auditor's report on the consolidated financial statements of the government by June 30 every year, to give timely assurance to the Legislative Assembly on the quality of the government's financial reports. For fiscal 2016, we issued our unqualified report on June 23, 2015 for the government's March 31, 2015 consolidated statements.

Subsequent to our current year end, we issued an unqualified audit report on June 23, 2016 for the government's 2016 consolidated financial statements.

Financial statement audits—Percentage of audits completed within budget

For 2016, we completed 59 per cent of our financial statement audits within budget in working toward a target of 75 per cent. A significant factor in the shortfall was our decision to reduce budget hours and establish more challenging stretch targets within our portfolio of financial statement audits. We set aggressive budgets as an internal tool to be sure we are always conscious of managing our audit projects to tight timelines and budgets. From these base budgets our engagement leaders are able to assess and analyze time and cost variances arising from unanticipated risks and concerns encountered during audits, and the additional audit work required to appropriately deal with these matters. We feel this is a more useful approach compared to building in budget contingencies.

Auditing standards—Pass professional practice review

Our office is registered as a practicing audit and training office with the Chartered Professional Accountants of Alberta (CPA Alberta). Our goal is to meet all standards, including those for practice review, and to continue to maintain our registrations in good standing.

In February 2016, CPA Alberta reviewed our financial statement auditing practice to determine if it meets current auditing standards. We are awaiting their final conclusion, expected in summer 2016. As part of CPA Alberta's three-year cycle for practice reviews, we passed our last inspection in 2013.

SYSTEMS AUDITING RESULTS

Sections 19(2) (d) and (e) of the *Auditor General Act* require us to report when "accounting systems and management control systems, including those systems designed to ensure economy and efficiency, …were not in existence, were inadequate or had not been complied with" or when "appropriate and reasonable procedures [that] could have been used to measure and report on the effectiveness of programs … were either not established or not being complied with." We meet this expectation in two ways:

- **Stand-alone systems audits**—examine programs or initiatives that an organization undertakes to achieve its goals. In a stand-alone systems audit, we answer the question "Does the organization have the systems, processes and controls to accomplish its goals and mitigate its risks economically and efficiently, including procedures to measure and report on the effectiveness of programs?"
- **By-products of financial statement audits**—focus on operational areas such as governance and accountability for results, internal control over financial management, information technology or performance reporting. The areas warranting examination are usually identified in completing financial statement audit work.

We concentrate on areas that will result in improved:

- oversight and ethical behaviour—these underpin the success of any organization
- safety and welfare of all Albertans—especially the most vulnerable in our society
- security and use of the province's resources—they belong to all Albertans and must be protected

A key output of our systems audit work is to identify where government can make improvements to important management systems. Systems audits can also identify waste (dollars that do not contribute to achieving results) and help government managers deliver value for money. Our recommendations to improve economy, efficiency and effectiveness are even more important in times of economic constraint.

2016 REPORTS

Appendix B lists the systems audits included in the auditor general's 2016 public reports. In considering the 11 new stand-alone systems audits publicly reported this year, we determined that many of our findings and the problems identified had root causes that could be categorized in three areas:

- governance and oversight
- operations and finance
- public accountability for results

These three areas align with the results management framework and accountability for results steps outlined earlier in this report. Summaries of five 2016 stand-alone systems audit reports follow.

"The five systems audit summaries on the following pages highlight just a portion of the breadth of our work, and in turn the breadth of the government's program activities. Each summary conveys the task that management has—implement the recommendations in a timely, cost effective manner. Each also signals the work that remains for us—confirm the necessary change has in fact taken place. The ultimate return for Albertans comes from management teams applying their learnings to the whole of their operations, other management groups across Alberta's public service considering any learnings for their operations and my colleagues using the insights we have gained to plan future systems audits."

Merwan Saher, Auditor General

Governance and oversight should bring capable, vigilant people together with relevant information to achieve desired, cost effective results. The governance structure should have meaningful levels of active oversight within the organization and between related parties (e.g., where the organization is accountable to another organization or individual).

Post-secondary institutions—For-profit and cost recovery ventures	Advanced Education

Background

The Government of Alberta provides funding to public post-secondary institutions. Institutions may also seek ways to reduce their reliance on government funding by creating alternative sources of funding through new business ventures. For-profit and cost recovery ventures pose unique financial, reputational, legal and operational risks to institutions. They also require management and oversight expertise distinct from that typically required for a publicly funded post-secondary institution. We looked at the department's systems to manage oversight of these ventures.

Findings

Department expectations and approved guidelines for institutions that participate in for-profit and cost recovery ventures do not exist. Without these expectations and guidelines, the department's oversight of boards monitoring the risk management of these ventures is not effective.

Recommendations

The department must document its expectations of desired results and risk management, and formalize guidelines to support these expectations for institutions participating in for-profit and cost recovery ventures. The department must develop and follow a process for ongoing communication of these expectations and guidelines to all such institutions.

The department must strengthen its processes to assess whether boards have ensured that management at such institutions have appropriate processes and controls to mitigate risks facing for-profit and cost recovery ventures. Effective department oversight must include obtaining, from institutions, complete information about proposed ventures and the results of their subsequent operations.

Total audit project costs: $184,000
Report of the Auditor General of Alberta—October 2015

Office of the Public Guardian and Trustee—Surplus management and results reporting	Human Services

Background

The Public Trustee manages the financial assets of vulnerable Albertans. The Public Trustee acts to protect and manage the interests of Albertans (there are approximately 20,000 open case files) who are otherwise unable to make financial decisions for themselves. This role includes administering estates or trusts for represented adults, minor children, and deceased and missing persons. The Public Trustee has a fiduciary responsibility to act in their best interest, protect their assets and comply with legislative requirements. Clients, beneficiaries and families deserve to know that their loved ones' financial needs are being properly managed by the Public Trustee.

We examined whether the Public Trustee has processes to determine how much should be retained in the surplus account and how to utilize the balance that has accumulated over time. We also examined the processes the Public Trustee uses to set, communicate and report the results of its operations.

Findings

The Public Trustee does not have adequate systems to manage the surplus funds arising from the management of the assets of the Public Trustee's clients.

The Public Trustee does not have adequate processes to support reporting on the results of the Public Trustee's operations, including adequate results analysis.

Recommendations

The Public Trustee should analyze past results and examine trends to determine the required amount that should be retained in the accumulated surplus to mitigate the risks of negative interest fluctuations and errors and omissions claims.

The Public Trustee should implement processes to identify, analyze and report results achieved in order to improve its operations and demonstrate accountability for results to its clients and Albertans.

Total audit project costs: $323,000
Report of the Auditor General of Alberta—February 2016

Operations and finance should be led by strategies and business plans directed at achieving desired results. Priorities should recognize resource constraints. The delivery of ongoing services, new initiatives and capital projects should balance economy, effectiveness and efficiency, including minimizing waste. To these ends, management systems and processes supporting program delivery should monitor, measure and evaluate results.

Economy and efficiency of Government of Alberta cash management	Treasury Board and Finance

Background

Cash management helps organizations make the most of their money. Economical cash management includes using cash not needed in the short term to minimize borrowing costs, paying bills no earlier than necessary, and maximizing the investment return on available cash. An organization can be more efficient in its cash management by using information technology to automate data collection and standard reporting tasks for timely, day-to-day monitoring and decision making.

Findings

The Department of Treasury Board and Finance was not periodically evaluating whether the government's cash management practices were efficient and economical. In particular, there were no mechanisms to use excess liquidity in government-controlled organizations. The department had not analyzed what factors might result in government-controlled organizations accumulating excessive cash balances.

Further, the department was still relying on manually generated spreadsheets to manage cash rather than using integrated treasury management systems technology, which would be more efficient. Also, Treasury Board and Finance was not continually working with other departments to assess if current banking practices remained the most efficient and economical options.

Recommendations

While our recommendations were to Treasury Board and Finance, putting all of our recommendations into practice will require cross-government commitment and the support of the Treasury Board Committee, as well as investment in information technology.

The department should implement an integrated treasury management system, which would give the government complete and timely information to manage cash.

Another priority for the department is to implement mechanisms to use excess liquidity. The government already has a fund to help manage liquidity, called the Consolidated Cash Investment Trust Fund, but the department needs to look for opportunities to make better use of it.

Treasury Board and Finance needs to work more with other departments by helping them implement leading banking and payment practices.

Total audit project costs: $481,000
Report of the Auditor General of Alberta—February 2016

Disaster recovery program transition	Municipal Affairs

Background

Disaster recovery programs provide financial aid to Albertans who have suffered losses as a result of a disaster, such as a flood or wildfire. In Alberta, disaster recovery programs were delivered by a contracted service provider between 1995 and 2014. However, in 2014 the minister announced that the department would deliver the programs from March 2015 onward.

The period from March 2014 to March 2015 was to be a transition period, in which the department would build capacity to take over the delivery. The department expected that during this period the service provider would complete any remaining work related to existing disaster recovery programs.

Findings

The department created a transition plan in March 2014 but has been unable to implement it. The transition has been hampered by several key factors:

- The plan involved more than simply transferring program delivery to the department. It also included a phase to redesign the model for disaster recovery programs. The department lacked the capacity to carry out such a plan in the wake of the large-scale floods that hit southern Alberta in June 2013.
- The plan assumed the contracted service provider would complete the files from 2013 and any legacy disaster recovery programs, but the contract with the service provider was based on time rather than expectations of work to be completed. The large number of claims from 2013 meant the service provider could not complete the work in the agreed time.
- The department did not identify an adequate information technology system for use when it took over the disaster recovery program.

Recommendations

A transition of this scale requires expert project management. We therefore recommended that the department:

- obtain skilled project managers
- implement project management practices that will achieve the planned objectives

Our recommendation also included improving project oversight to monitor the implementation of the plan. With better oversight, there is a greater chance of achieving the desired results within an acceptable timeframe.

Total audit project costs: $264,000

Report of the Auditor General of Alberta—February 2016

Public a countability for program results should provide evidence to Albertans that value for money has been achieved. The evidence should include financial and non-financial analysis presented at least annually in a public report. Public reporting on progress or the achievement (or non-achievement) of desired results should be fair, balanced and complete. Each report should identify learnings for consideration in developing future public plans, against which there should be subsequent value-for-money reporting.

Systems to manage royalty reduction programs	Energy

Background

On behalf of Albertans, the Government of Alberta is the owner of 81 per cent of the mineral rights in the province, including oil and gas. When companies develop the resources, they must pay the province a royalty. As the resource owner, the Alberta government sets the terms and conditions for development and the royalty rates.

Some processes for extracting and refining oil are more costly for companies, and the government's standard royalty rate can prohibit companies from attempting those forms of extraction and refining. As an incentive, the government reduces the royalty on sales of oil and gas extracted or refined through such processes.

Findings

At the time of our audit, the Department of Energy had not assessed the benefit of its royalty reduction programs. For example, two of the programs we reviewed had performance measures, but the department had not analyzed the results or used the measures to report on whether the program was achieving its goals. For example, could an even greater royalty reduction have encouraged sufficient extra oil extraction to generate more revenue overall for the government? The department was not asking such questions.

Recommendations

The department needs to annually analyze and report on whether the royalty reduction programs are achieving their objectives. By doing so, it will know whether the programs are achieving the best value for money.

Total audit project costs: $138,000
Report of the Auditor General of Alberta—February 2016

The public reports of the Auditor General of Alberta
are available online at ***http://www.oag.ab.ca/reports***

Our office works to ensure management understands and accepts our systems audit recommendations. Once a recommendation is accepted, management provides us with an implementation plan that will include a target completion date.

Office performance measures

Auditing recommendations—Acceptance by ministries and other entities

One way we measure the relevance of our work is to track the acceptance of auditing recommendations for implementation. Our target acceptance rate is 95 per cent. For 2016, the acceptance rate by ministries and other entities audited was 100 per cent, exceeding our current-year target and the prior year's 91 per cent result.

Auditing recommendations—Not implemented within three years of acceptance

Progress in 2016

Once our recommended improvements to government systems and controls have been accepted, we follow up and report publicly on their implementation. Follow-up audits confirm that sustainable change has taken place. This work is not superficial. We approach follow-up audits with the rigour Albertans expect from this office and will repeat our recommendations when management has not satisfactorily implemented them.

Our initiative to reduce the number of outstanding recommendations has been successful. There were 50 recommendations outstanding for over three years at March 31, 2015. Seven outstanding recommendations becoming older than three years at the start of 2016 were added to the opening total. Then in the current year 23 recommendations were assessed as implemented, leaving 34 recommendations outstanding at the end of 2016.

Ideally, we will commence or complete follow-up audits within three years. The government advises six of the 34 older recommendations are ready for follow-up audits, which are scheduled for completion in 2017.

The number of outstanding recommendations is affected by both the number of recommendations we issue and the government's progress in implementing them. As this number is dependent on the government's progress, which is outside of our control, we are discontinuing this as a key performance measure of the office. Though no longer a measure, we will continue to monitor and report on implementation status and our progress in completing follow-up audits (see table on the following page).

New performance measure for 2017

In our 2016–2017 business plan we introduced a new performance measure directed at our office's responsiveness in commencing follow-up audit work once management advises implementation is complete. For the initial year of this measure, we are targeting 75 per cent success in having follow-up audits initiated within a year of the formal "ready for follow-up" notification being received by our office. Our ultimate annual objective is to have no outstanding recommendations older than three years that do not have a scheduled follow-up.

Systems auditing recommendations—Outstanding more than three years (March 2016)

Ministry	Recommendations implemented and ready for follow-up	Recommendations not ready for follow-up	Totals
Advanced Education	-	1	1
Economic Development and Trade	-	1	1
Education	-	1	1
Environment and Parks	-	9	9
Executive Council	-	3	3
Health	2	5 [a, b]	7
Infrastructure	-	4	4
Labour	1	-	1
Seniors and Housing	1	1	2
Transportation	-	1	1
Treasury Board and Finance	2	2	4
Totals for March 31, 2016	**6**	**28**	**34**
Trend Information			
Mid-year (October 31, 2015) per 2016–2017 business plan	8	30	38
Prior-year (March 31, 2015)	18	32	50

[a] Two recommendations under Health involve coordinated implementation with Agriculture and Forestry. For one recommendation, management has advised of implementation and readiness for the follow-up audit. For the other, implementation has not been completed.

[b] There is one recommendation to Alberta Health Services that is listed under Health, noting that coordinated implementation has been assigned to Health, Alberta Health Services and Agriculture and Forestry.

PRIORITY INITIATIVES FROM 2015–2016 BUSINESS PLAN

EFFECTIVE AND SUSTAINABLE PEOPLE DEVELOPMENT

The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that facilitates recruiting, growing and retaining skilled legislative auditors is vital to our success. Our focus in meeting these ongoing human resources challenges is to be flexible in adapting to market, education and societal changes.

In our professional services business we recognize the need for strategies directed at staff development and retention, particularly in the student through manager ranks. Our training program is designed to improve the overall effectiveness, efficiency and personal excellence of all staff.

Performance update

We continued to provide our staff with relevant experience and professional and personal skill development through 2016. In addition to technical training on new and changed professional standards, we provided well-received training in data analytics and leadership. These activities and the individual and collaborative engagement of our staff contributed to a positive and supportive professional work environment. This positive work environment in turn contributed to successful financial and non-financial results for the year.

We are a legislative audit office, independent of the government, but we are not unconnected from the economic realities the province faces. As such, we are operating under the government's decision to freeze the salaries of all non-union employees of the Alberta public service. As we compete directly with the private sector for professional accountants, management and our human resources group will monitor the impact of the freeze, noting any recruiting and staff retention challenges (e.g., we have had several voluntary departures in the short period since the freeze was announced).

IMPLEMENT RECOMMENDATIONS FROM INDEPENDENT PEER REVIEW

Several years ago, the office commissioned an independent peer review which was conducted by the Provincial Auditor of Saskatchewan. The review was intended to provide Albertans with assurance that their legislative audit office functions well and to identify areas for improvement.

In the 2014 peer review report, the Saskatchewan audit office issued its opinion that our office's systems "... were designed suitably and operated effectively to provide reasonable assurance that the work performed by the office ... is relevant, reliable and was carried out at a reasonable cost."

Performance update

The peer review suggested two areas for improvement—more consistent documentation of the timing of audit file reviews and better documentation of engagement quality control review decisions. In 2016, working through our office's quality oversight committee, we made improvements in both areas. Our audit methodology now more clearly states the timing requirements for the documentation and review of key audit evidence. Individuals assigned to the quality assurance review of files also now have more explicit instruction to assess compliance with the documentation and timing standards. As a final step, our oversight committee has refined its own process for reviewing quality assurance review reports.

We found the independent peer review to be useful and will establish an appropriate interval between reviews by studying best practices. We will focus our efforts on sustaining what we have achieved,

identifying opportunities for ongoing improvement and confirming internally that our systems continue to operate as intended.

OUTSTANDING RECOMMENDATIONS

There were 190 outstanding audit recommendations, 50 of which were key recommendations and more than three years old at the start of fiscal 2016. These include recommendations from stand-alone systems audits and by-products of financial statement audits.

Performance update

In 2016 there were 35 recommendations added to the opening total and 61 recommendations assessed as implemented. Of the resulting 164 recommendations outstanding at the end of 2016, there are 34 key recommendations that have been outstanding for more than three years. We will continue direct focus in reducing the number of recommendations outstanding for more than three years.

CORPORATE ACCOUNTING POLICIES

The government controller's success in articulating and overseeing the timely and effective implementation of new and changed corporate accounting policies is important. If we are to meet financial statement reporting deadlines, our considerations of these developments must be well coordinated.

Performance update

In fiscal 2016 we continued to work proactively with the controller's office on the consistency of accounting policies and pro forma financial statements. This approach will improve auditee readiness for year-end financial statement audits. We will continue to discuss new and changed accounting matters with the controller's office and auditees as part of ongoing operations.

PERFORMING SMALLER SYSTEMS AUDITS

In our 2015–2016 business plan we committed to conduct a number of smaller systems audits in addition to our larger systems audits.

Performance update

The purpose of conducting smaller systems audits is twofold:

- Increase the breadth of our systems auditing coverage across government without impacting our ability to carry out larger systems audits
- Provide more opportunities for systems auditing experience, particularly for financial accounting auditors with the capacity to assist in systems auditing outside the peak financial statement auditing season

In 2016, we completed several new, smaller stand-alone systems audits (e.g., per Appendix B: IT System Implementation at Olds College, Victims of Crime—Systems to Manage Sustainability and Assess Results). We were pleased with the results arising from these smaller systems audits, including the opportunities for financial statement auditors to gain valuable experience in systems auditing.

OUR PEOPLE

ALBERTANS' INVESTMENT

As a professional services office, we compete with the private sector for designated accountants and other professionals with specialized skills. As a training office for accounting students, we also compete to attract top talent from post-secondary education institutions.

People development has been, and will continue to be, a focus of our office. Like many professional services firms, one of our main operating challenges is attracting, training and retaining quality staff to carry out our legislative audit responsibilities. We recognize that our staff are well educated and receive good training, making them attractive to other employers. Without making good hires and investing in their skills development, we would expose the office to the risk of inadequate audit performance and other business risks.

We believe it is important to preserve and develop Albertans' investment in their team of legislative auditors. The investment in our staff ensures our work meets the fundamental objectives of:

- **Quality**—Do we meet professional standards for financial statements and systems audit engagements?
- **Accountability for results**—Do we provide relevant, reliable auditing services at a reasonable cost?

The right complement of staff skills is critical for high quality and cost effective auditing. Evidence shows that if we continue to invest in people development and focus on monitoring and analyzing what constitutes the optimal mix of staff at various levels, we can ensure we have the right people, with the right skills, doing the right work.

EXPANDED CPA TRAINING OPPORTUNITIES

In March 2016 the Chartered Professional Accountants (CPA) approved our proposal to train CPA students through our systems auditing line of business. We are the first legislative auditing office in Canada to embark on this path to the CPA designation.

LEADERSHIP AND STRATEGY EXECUTION TRAINING

In 2016 we focused on leadership and strategy execution. We recognize that a disciplined and methodical approach to strategy execution is vital to achieving our goals and desired results. It is important that our people have the leadership skills to integrate changed and new activities into ongoing operations.

WORKING NATIONALLY

The Canadian Council of Legislative Auditors (CCOLA) is an organization devoted to sharing information and supporting the continued development of legislative auditing methodology, practices and professional development. Leaders from our office were involved in active 2016 CCOLA agendas that included:

- financial statements and performance (systems) auditing conferences—the chairs for these national events were from our office
- auditing methodology reviews and redesign—a key objective is for more efficient, cost effective auditing processes and procedures without sacrificing audit quality or assuming unmanageable business risks

- reviews of current nationally administered online and in-class training courses—reassess the competencies required for current and future auditing environments, identify gaps in current curriculums and initiate plans for updates (e.g., the increasing need for core skills in the data analytics area)
- human resources—review best practices, policies and operational issues
- data analytics—encourage use in audits and share best practices

The intent is to work with other legislative offices through the CCOLA in key areas of learning and development as part of ensuring our audit work continues to be relevant and reliable and performed at a reasonable cost.

WORKING INTERNATIONALLY

As part of a biannual training program with the State Audit Office of Vietnam, sponsored by the CCAF-FCVI,[1] our staff members were generous in sharing knowledge and personal time hosting our two guest auditors. The formal learning to be applied on their return to Vietnam was focused on systems auditing practices and methodologies. Our guest auditors also learned about Alberta and Canadian culture through a variety of social, recreational and special events arranged by staff members, often with their families.

UNITED WAY SUPPORT

The office's 2015 United Way fundraising campaign was once again recognized within the Government of Alberta for the highest average gift and highest campaign total among similarly sized government departments and organizations.

Office performance measure

Staff turnover rate

This measure considers the number of staff departures as a percentage of the total number of people employed by the office during the year. We have offices in Edmonton and Calgary. The average full-time equivalent staffs were 133 in Edmonton (2015–133) and 13 in Calgary (2015–13).

We recognize the importance of understanding and measuring staff turnover. Replacing employees brings significant costs and disruption to any organization in hiring, onboarding, training, mentoring, supervising and reassigning work portfolios. These costs are also reflected in additional temporary staff and time spent on audits affected by staff turnover and negatively impact our ability to perform audits within budget.

For 2016, the office's overall staff turnover rate was 16 per cent, which met our target of turnover under 20 per cent and is comparable to the previous year's 15 per cent. As a CPA training office, and given our overall staff mix and the nature of our business, we consider a turnover rate in the 15 to 20 per cent range to be realistic and reasonable. A steady staff turnover in this range contributes to success in having the right people in the right roles doing the right work.

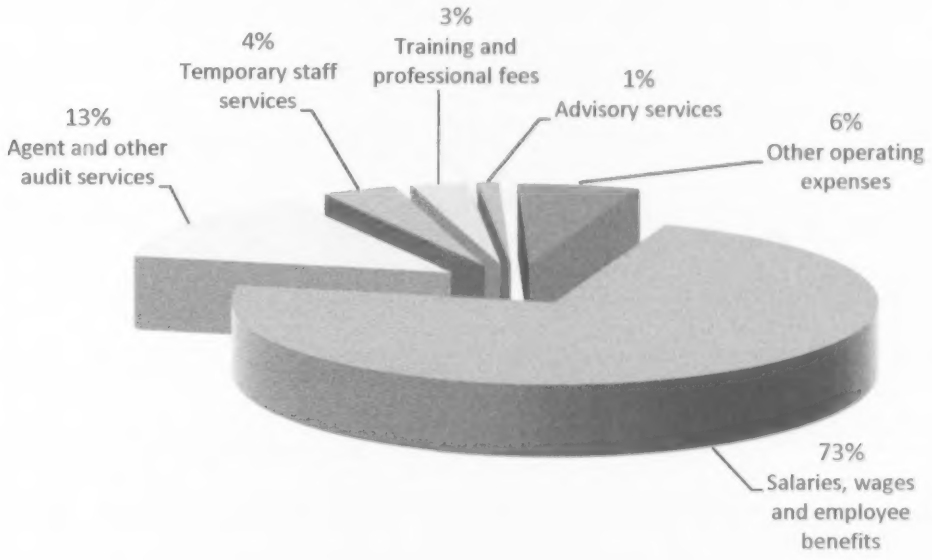
[1] CCAF-FCVI Inc. is a Canada-based research and educational foundation for auditors.

FINANCIAL DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with our audited financial statements.

For April 1, 2015 to March 31, 2016, the Legislative Assembly provided $26.8 million for our office's operating and capital expenditures, a two per cent ($546,000) reduction from our 2015 budget. We exercised prudent cost control and managed the mix and cost of our resource pool, comprising internal staff, agents and temporary staff.

The chart below illustrates our expense mix. As expected in a "people organization" such as ours, salaries, wages, employee benefits, agents, temporary staff and training represent the significant majority (93 per cent) of our total expenses.



Salaries and wages in 2016 were $316,000 (two per cent) higher and employee benefits were $83,000 (two per cent) higher than in 2015 due to government pay band increases and professional growth adjustments for our staff auditors. Salaries and wages were $406,000 (three per cent) lower and employee benefits were $243,000 (six per cent) lower than budget due to temporary vacancies and departing senior staff being replaced through internal promotions.

As a cost effective means of completing audits on time, we engage Alberta auditing firms as agents to audit certain entities under our oversight. We use agent firms to meet peak work demands, to save on travel costs and to provide specialized skills for certain complex matters. Agent and other audit services costs were lower than last year by $1.0 million (22 per cent) and under budget by $569,000 (14 per cent) primarily because:

- a financial statement audit performed in recent years by an agent firm is now being completed by our staff
- fewer systems and financial statement projects in the current year required audit specialist consulting fees

- discontinuance of performance measure auditing and review engagement work effective for auditee year-ends after March 31, 2015 reduced the need for external auditing firm services
- fees were reduced as a result of our competitive contract bidding process

Financial statement auditing involves planning, interim (before year end) and year-end audit field work specific to each government organization. Our audit teams also coordinate their work in central services areas, such as payroll and cross-ministry initiatives. We contract with external accounting firms for qualified auditors to augment our audit teams temporarily during our peak work periods. Temporary staff services were lower than last year by $129,000 (12 per cent) and under budget by $305,000 (24 per cent). Reduced demand for temporary staff was mainly due to:

- lower than anticipated turnover of audit managers and in-charge staff, resulting in less need for external resources at these levels
- reporting deadline changes that allowed staff to be reassigned to other projects

Training and professional fees were $198,000 (21 per cent) lower than last year and $111,000 (13 per cent) lower than budget due to audit staff continuity and fewer replacement hires, resulting in the requirement for less training. Costs in the previous year were also affected by the merger of the accounting profession, which caused students to accelerate through the legacy designation education programs.

Travel costs were $146,000 (25 per cent) lower than last year and $81,000 (15 per cent) under budget. Systems audits in 2016 were concentrated in the Edmonton and Calgary regions, rather than remote auditee locations.

Purchases of capital assets were $160,000 (58 per cent) lower than last year, mainly due to the video conferencing equipment upgrades and central computer server purchases in that year. Current year capital spending was on budget.

A surplus or deficit in any fiscal year is normal due to the timing of our planned audit work. As audits often span two or more fiscal years, we budget according to planned audit timelines but must be flexible in carrying out our work. In 2016, we returned $1.1 million (four per cent) of our budget to the Legislative Assembly.

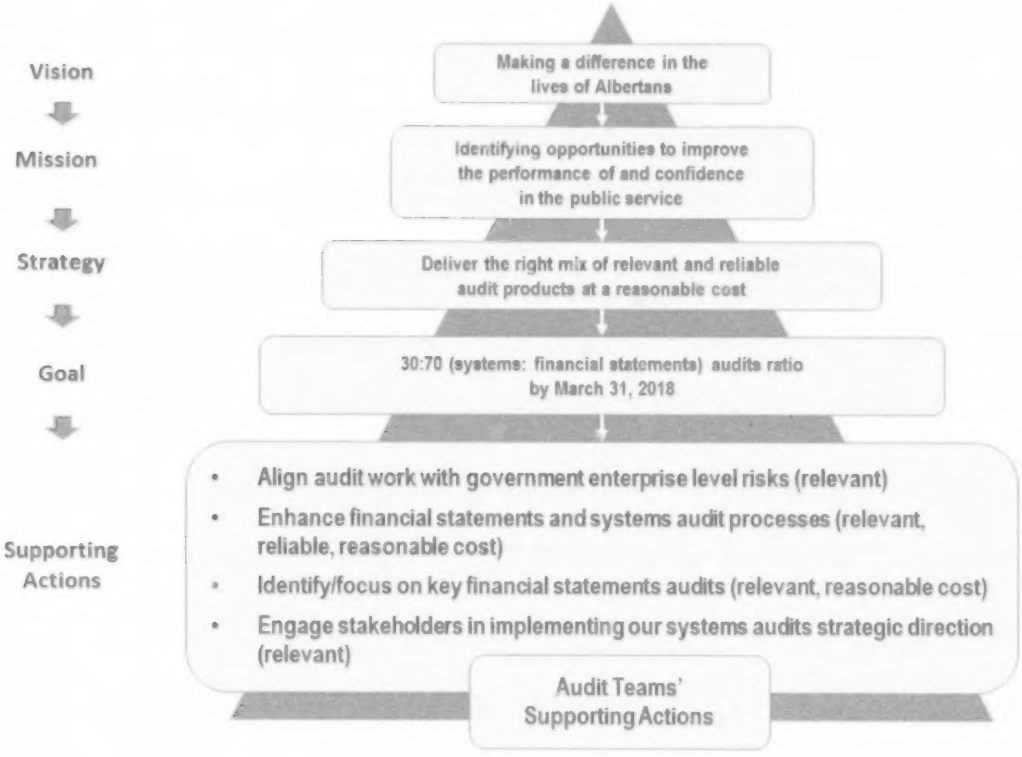
WHAT WE LEARNED

Throughout each year, we spend significant leadership time analyzing our results and identifying lessons learned that can be applied for continuous improvement. Many of these activities are directed at preserving and advancing Albertans' investment in their team of expert legislative auditors.

In considering our 2016 results, we incorporated the following lessons into our strategy, business plan and operations for 2017.

- **Develop strategy execution skills and processes**
  We recognize that a disciplined and methodical approach to strategy execution is vital to achieving our goals and desired results. Our goal—to achieve a sustainable mix of 30 per cent systems auditing and 70 per cent financial statement auditing—requires new activities to move the organization forward. As strategy execution progresses, changed and new activities must be sustainably integrated into ongoing operations.

  Our office leadership team and functional and audit engagement leaders have been working to identify processes and steps to align our operations with the strategy. Our functional and engagement leaders will in turn collaborate with other staff regarding the actions each team will undertake in support of our strategic goal. This disciplined approach, depicted in the diagram below, is part of our plan to execute on our goal in the midst of daily activities.


Vision
Making a difference in the lives of Albertans
Mission
Identifying opportunities to improve the performance of and confidence in the public service
Strategy
Deliver the right mix of relevant and reliable audit products at a reasonable cost
Goal
30:70 (systems: financial statements) audits ratio by March 31, 2018
Supporting Actions
• Align audit work with government enterprise level risks (relevant)
• Enhance financial statements and systems audit processes (relevant, reliable, reasonable cost)
• Identify/focus on key financial statements audits (relevant, reasonable cost)
• Engage stakeholders in implementing our systems audits strategic direction (relevant)
Audit Teams' Supporting Actions

- **Change our approach to performance measures work**
  Our office discontinued direct assurance work on performance measures in 2016 following consultations with the Department of Treasury Board and Finance. In the past, the office was engaged to audit some performance measures included in the government's annual Measuring Up report. We also reviewed[2] selected performance measures in ministry annual reports and one or two larger government organizations. The decision to discontinue was effective after the auditor general's performance measures reports were issued in the first part of our 2016 fiscal year.

  Resources from the performance measures work will be redirected to systems auditing projects. It is through ongoing systems auditing work that we will remain involved with performance measurement by examining processes designed to ensure economy and efficiency of programs, including results measurement and reporting. Overall, we believe that the shift away from direct performance measures work will result in better value from the use of our staff resources.

- **Reassess our financial statement audit methodology**
  The challenge to complete our financial statement audits within mandated timelines, and doing so in fewer hours, has grown over the years. We will assess our audit methodology to maintain audit quality and consistency while dealing with changes in the control and information systems of our auditees.

  We aim to transform our audit processes through the use of data analytics. We have acquired new data analytics software and developed reusable data analytics routines. In 2016 we held staff training to initiate more comprehensive use of data analytics in both financial statements and systems auditing.

  Ongoing improvement of audit methodology is not unique to our office. In 2016, through our CCOLA involvement, we discussed audit methodology with the federal and other provincial legislative audit offices. During these discussions, it was recognized there may be benefits to cost effectively developing an auditing methodology package jointly, with training, maintenance and other supports for future use.

- **Engage stakeholders in implementing our systems audit strategic direction**
  To best implement our systems auditing strategic direction, we are working to increase our level of stakeholder engagement. Led by our new systems audit practice business leader, in 2016 we began consultations with Treasury Board and Finance and other ministries, as well as a panel of external advisors with a broad range of government and business experience. This work will inform the development of a multi-year risk-based systems audit plan. The combination of internal and external input will enhance our existing processes for identifying and prioritizing potential systems audits directed at objectives that include cost effectively strengthening Alberta government programs and minimizing waste.

- **Continue to monitor systems audit recommendation implementation**
  We've learned that by staying engaged with our auditees we can support the implementation of recommendations more than three years old and schedule timely follow-up systems audits when auditees advise they are ready. Ongoing conversations and renewed efforts by those charged with implementing recommendations have reduced the number of outstanding recommendations.

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[2] A review is not an audit, and provides a limited/moderate level of assurance.

Productive dialogues with our auditees are particularly important in these times of scarcer resources and potentially shifting strategic and operational priorities, to help ensure the list of outstanding recommendations remains current and of reasonable length.

Albertans see true value from our work when our recommendations to improve the performance of and confidence in the public service are implemented.

At the Office of the Auditor General, the purpose that inspires us is knowing that our work is making a difference in the lives of Albertans. To this end, our continuous improvement is critical.

APPENDIX A: 2016 FINANCIAL STATEMENT AUDITOR'S REPORTS

The auditor general issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2015 (unless otherwise stated) for the organizations listed below. Generally, the auditor's report is issued three to four months after the organization's fiscal year end.

The organizations are grouped in accordance with the government's 2016 priority areas and the ministries aligned under each priority area. Subsequent to auditor general's reports being issued, some ministries were renamed or merged as part of government reorganizations and transfers of responsibilities.

Consolidated financial statements of the Province of Alberta

Alberta's Economic Future

Aboriginal Relations (now known as Indigenous Relations)

- Ministry of Aboriginal Relations

Agriculture and Rural Development (now known as Agriculture and Forestry)

- Ministry of Agriculture and Rural Development
- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.

Culture and Tourism

- Ministry of Culture and Tourism
- Department of Culture and Tourism
- Government House Foundation
- Historic Resources Fund
- Alberta Sport Connection
- Travel Alberta
- Alberta Foundation for the Arts
- The Alberta Historical Resources Foundation
- The Wild Rose Foundation

Infrastructure

- Ministry of Infrastructure

Innovation and Advanced Education (now known as Advanced Education)

- Ministry of Innovation and Advanced Education
- Department of Innovation and Advanced Education
- Access to the Future Fund
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Technology Futures
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Enterprise Corporation
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

For the year ended June 30, 2015

- Alberta College of Art + Design
- Bow Valley College
- Grande Prairie Regional College
- MacEwan University
- Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology
- Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Intergovernmental and International Relations (now known as Economic Development and Trade)

- Ministry of Intergovernmental and International Relations

Families and Communities	
Education	
• Ministry of Education • Department of Education	• Alberta School Foundation Fund
For the year ended August 31, 2015	
• Alberta Teachers' Retirement Fund Board • Athabasca Delta Community School	• Northland School Division No. 61
Health	
• Ministry of Health • Department of Health • Alberta Health Services • Capital Care Group Inc. • Calgary Laboratory Services Ltd.	• Carewest • Health Quality Council of Alberta • Alberta Innovates—Health Solutions • Alberta Foundation for Health Research
Human Services	
• Ministry of Human Services	• Office of the Public Guardian and Trustee
Jobs, Skills, Training and Labour (now known as Labour)	
• Ministry of Jobs, Skills, Training and Labour	
For the year ended December 31, 2015	
• Workers' Compensation Board – Alberta	
Justice and Solicitor General	
• Ministry of Justice and Solicitor General • Department of Justice and Solicitor General	• Human Rights, Education and Multiculturalism Fund • Victims of Crime Fund
Seniors (now known as Seniors and Housing)	
• Ministry of Seniors	• Department of Seniors
Service Alberta	
• Ministry of Service Alberta	
Resource Stewardship	
Energy	
• Ministry of Energy • Department of Energy • Alberta Utilities Commission	• Alberta Energy Regulator • Post-closure Stewardship Fund
For the year ended December 31, 2015	
• Alberta Petroleum Marketing Commission	
Environment and Sustainable Resources Development (now known as Environment and Parks)	
• Ministry of Environment and Sustainable Resources Development • Department of Environment and Sustainable Resources Development • Climate Change and Emissions Management Fund • Land Stewardship Fund	• Natural Resources Conservation Board • Alberta Environmental Monitoring, Evaluation and Reporting Agency • Environment Protection and Enhancement Fund

Municipal Affairs

- Ministry of Municipal Affairs
- Department of Municipal Affairs
- Alberta Social Housing Corporation

For the year ended December 31, 2015

- Improvement Districts 4, 9, 12, 13, 24, 25 and 349
- Kananaskis Improvement District
- Special Areas Trust and Board

Transportation

- Ministry of Transportation
- Department of Transportation
- Alberta Transportation Safety Board

Treasury Board and Finance

- Ministry of Treasury Board and Finance
- Department of Treasury Board and Finance
- Alberta Cancer Prevention Legacy Fund
- Alberta Gaming and Liquor Commission
- Alberta Gambling Research Institute
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Investment Management Corporation
- Alberta Lottery Fund
- Alberta Risk Management Fund
- Alberta Securities Commission
- ATB Financial
  - ATB Insurance Advisors Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.
- Consolidated Cash Investment Trust Fund
- Long-term Disability Income Continuance Plan —Bargaining Unit
- Long-term Disability Income Continuance Plan —Management, Opted Out and Excluded
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers (Registered) Pension Plan
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- Consolidated Financial Statements of the Province of Alberta

For year ended September 30, 2015

- Gainers Inc.

For the year ended December 31, 2015

- Alberta Capital Finance Authority
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Credit Union Deposit Guarantee Corporation
- Government of Alberta Dental Plan Trust
- Government Employees' Group Extended Medical Benefits Plan and Prescription Drug Plan Trust
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

Executive Council

- Ministry of Executive Council
- The Public Service Health Spending Account Plan

Legislative Assembly

- Legislative Assembly Office
- Office of the Chief Electoral Officer
- Office of the Child and Youth Advocate
- Office of the Ethics Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman
- Office of the Public Interest Commissioner

Reporting on financial information

Certain organizations listed above require an extra auditor's report on specified financial information that is a subset of their financial statements. The financial information generally involves regrouping various account balances (usually in their statement of operations) to comply with certain standardized external reporting requirements of the organization. The extra auditing work involved with reporting on the financial information is minimal. In 2016 the auditor general issued nine unqualified auditor's reports on specified financial information (2015–19).

Reporting on performance measures

In conjunction with our financial statement work in early 2016, we were engaged to audit some performance measures included in the government's Measuring Up report for the year ended March 31, 2015. We were also engaged by 18 ministries and one other government organization to review[3] selected performance measures in their 2015 annual reports. The auditor general issued an unqualified audit or review engagement report on the limited scope of the measures examined or reviewed for each of these organizations[4] and their fiscal years ending in our office's 2016 fiscal year. As noted earlier, we discontinued direct assurance work on performance measures in 2016 and will redirect our resources to systems audit work.

[3] A review is not an audit, and provides a limited/moderate level of assurance.

[4] The ministries and other organizations provided with 2015 auditor's or review engagement reports on selected performance measures are listed in the office's 2015 results analysis report.

APPENDIX B: 2016 SYSTEMS AUDITING REPORTS

Stand-alone systems auditing	
July 2015	
New	
Environment and Parks	• Systems to Manage Grazing Leases
Environment and Parks and Alberta Energy Regulator	• Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining
Follow-up	
Environment and Parks	• Systems to Manage the Specified Gas Emitters Regulation
Health	• Alberta Health Services—Systems to Manage the Delivery of Mental Health Services
Transportation	• Systems to Manage the Structural Safety of Bridges
October 2015	
New	
Innovation and Advanced Education (now known as Advanced Education)	• For-profit and Cost Recovery Ventures at Post-secondary Institutions • IT System Implementation at Olds College
Follow-up	
Environment and Parks	• Managing Water Act Partnerships and Regulatory Activities
Health	• Alberta Health Services—Managing Healthcare Waste Materials
Innovation and Advanced Education (now known as Advanced Education)	• IT Governance, Strategic Planning and Project Management at Athabasca University
Treasury Board and Finance	• Air Transportation Services Program
February 2016	
New	
Energy	• Systems to Manage Royalty Reduction Programs • IT Security for Industrial Control Systems in Alberta's – Electrical Industry – Oil and Gas Industry
Human Services	• Office of the Public Guardian and Trustee—Surplus Management and Results Reporting
Justice and Solicitor General	• Victims of Crime—Systems to Manage Sustainability and Assess Results
Municipal Affairs	• Disaster Recovery Program Transition
Treasury Board and Finance	• Economy and Efficiency of Cash Management in the Government of Alberta
Follow-up	
Environment and Parks	• Drinking Water

By-product of financial statement auditing	
July 2015	
No by-product of financial statement auditing reports	
October 2015	
Aboriginal Relations (now known as Indigenous Relations)	• Improve financial reporting processes*
Culture and Tourism —Travel Alberta	• Enhance documentation to support senior management expenses*
Education	• Enforce IT change management controls
Education —Northland School Division	• Improve financial reporting*
Environment and Parks	• Improve financial reporting processes
Health	• Establish a proactive check to ensure that individuals with an Alberta Health Care number continue to meet residency requirements • Enhance processes to check for receipt of services for which physicians billed
Health—Alberta Health Services	• Develop a detailed plan for implementing risk-based disaster recovery processes
Innovation and Advanced Education (now known as Advanced Education)	• Improve enterprise risk management
Municipal Affairs	• Improve systems to update the estimated disaster recovery program liability
Treasury Board and Finance	• Improve compliance systems for unfiled corporate income tax returns
February 2016	
Advanced Education	
Keyano College	• Improve financial reporting processes
Lakeland College	• Improve segregation of duties
Olds College	• Improve access controls to information systems
Red Deer College	• Improve general computer control environment*

* recommendation(s) repeated

The public reports of the Auditor General of Alberta are available online at ***http://www.oag.ab.ca/reports***

APPENDIX C: OTHER STATUTORY REPORTS

Public Interest Disclosure (Whistleblower Protection) Act Annual Reporting

The *Public Interest Disclosure (Whistleblower Protection) Act*[5] requires that the auditor general, as the office's chief officer under this legislation, report annually on the following parts under the Act.

Chief officer's annual report

32 (1) Every chief officer must prepare a report annually on all disclosures that have been made to the designated officer of the department, public entity or office of the Legislature for which the chief officer is responsible.

(2) The report under Subsection (1) must include the following information:

(a) the number of disclosures received by the designated officer, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

(b) the number of investigations commenced by the designated officer as a result of disclosures;

(c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

(3) The report under Subsection (1) must be included in the annual report of the department, public entity or office of the Legislature if the annual report is made publicly available, and if the annual report is not made publicly available, the chief officer must make the report under Subsection (1) available to the public on request.

Disclosures Received and Related Reporting
Fiscal year April 1, 2015 to March 31, 2016

Disclosures received	Disclosures acted on	Disclosures not acted on	Investigations commenced	Findings of wrongdoing*	Disclosures closed
None	n/a	n/a	None required	None	n/a

* Details for each finding of wrongdoing (if any)

Description of wrongdoing	Recommendations made	Corrective actions taken	If no corrective actions taken, reasons why not
n/a	n/a	n/a	n/a

[5] SA 2012, C. P-39.5

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Legislative Assembly of Alberta
Office of the Auditor General
Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General, including the performance measures, are the responsibility of office management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements, including performance measure results, have been audited by St. Arnaud Pinsent Steman, Chartered Professional Accountants, on behalf of the members of the Legislative Assembly.

[original signed by]

Merwan N. Saher FCPA, FCA
Auditor General
June 30, 2016

[original signed by]

Ruth McHugh MBA, FCPA, FCMA, ICD.D
Chief Operating Officer
June 30, 2016

FINANCIAL STATEMENTS (AUDITED)—MARCH 31, 2016

Legislative Assembly of Alberta
Office of the Auditor General
Financial Statements
March 31, 2016

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Change in Net Debt

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1—Lines of Business Costs

Schedule 2—Performance Measures Summary

ST. ARNAUD PINSENT STEMAN
CHARTERED PROFESSIONAL ACCOUNTANTS

Daniel J. St. Arnaud, CPA, CA**
John H. C. Pinsent, FCPA, FCA, ICD.D**
Benardus C. Steman, CPA, CA, CFA**

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly

Report on the Financial Statements

We have audited the accompanying financial statements of the Legislative Assembly of Alberta Office of the Auditor General, which comprise the statement of financial position as at March 31, 2016, and the statement of operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian public sector auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Legislative Assembly of Alberta Office of the Auditor General as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting principles.

May 30, 2016
Edmonton, Alberta

John H. C. Pinsent Professional Corporation
Chartered Professional Accountant

Suite 514 Capilano Centre • 9945 – 50 Street • Edmonton, AB T6A 0L4
Phone: (780) 448-0399 • Fax: (780) 468-6400 • www.sps-ca.ca

* An Association of Practice Chartered Accountancy ** Operates as a Professional Corporation

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2016

	2016		2015
	Budget	Actual	Actual
Expenses			
Personnel			
Salaries and wages	$ 15,485,000	$ 15,079,219	$ 14,763,405
Agent and other audit services	4,060,000	3,490,621	4,493,860
Employee benefits	3,880,000	3,637,485	3,554,290
Temporary staff services	1,270,000	965,031	1,094,118
Advisory services	265,000	282,212	375,049
	24,960,000	23,454,568	24,280,722
Supplies and services			
Training and professional fees	850,000	738,911	936,123
Travel	530,000	449,358	595,773
Information systems and technology	440,000	510,884	514,983
Materials and supplies	205,000	209,136	218,622
Telephone and communications	85,000	84,366	80,563
Office equipment rental	50,000	42,871	53,690
Repairs and maintenance	25,000	19,545	18,962
Miscellaneous	20,000	21,993	19,879
	2,205,000	2,077,064	2,438,595
Budget reduction (per Standing Committee on Legislative Offices—February 17, 2015)	(546,000)		
Total professional services expenses	26,619,000	25,531,632	26,719,317
Amortization and write-downs of tangible capital assets	250,000	243,110	291,800
Cost of operations for the year (Note 6)	$ 26,869,000	$ 25,774,742	$ 27,011,117

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Financial Position
As at March 31, 2016

	2016	2015
Financial asset		
Accounts receivable	$ 21,972	$ 12,984
Liabilities		
Accounts payable and accrued liabilities	1,702,120	1,959,668
Accrued vacation pay	2,285,183	2,253,042
	3,987,303	4,212,710
Net debt	(3,965,331)	(4,199,726)
Non-financial assets		
Tangible capital assets (Note 3)	433,775	562,443
Prepaid expenses	137,324	155,783
	571,099	718,226
Net liabilities	$ (3,394,232)	$ (3,481,500)
Net liabilities at beginning of year	$ (3,481,500)	$ (3,277,347)
Cost of operations	(25,774,742)	(27,011,117)
Net financing provided from General Revenues	25,862,010	26,806,964
Net liabilities at end of year	$ (3,394,232)	$ (3,481,500)

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Change in Net Debt
Year Ended March 31, 2016

	2016		2015
	Budget	Actual	Actual
Cost of operations	$ (26,869,000)	$ (25,774,742)	$ (27,011,117)
Acquisition of tangible capital assets	(135,000)	(114,442)	(274,559)
Amortization and write-downs of tangible capital assets	250,000	243,110	291,800
Change in prepaid expenses	-	18,459	45,131
Net financing provided from General Revenues	-	25,862,010	26,806,964
Decrease (increase) in net debt	-	234,395	(141,781)
Net debt at beginning of year	-	(4,199,726)	(4,057,945)
Net debt at end of year	$ -	$ (3,965,331)	$ (4,199,726)

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2016

	2016	2015
Operating transactions		
Cost of operations	$ (25,774,742)	$ (27,011,117)
Non-cash included in net operating results:		
Amortization and write-downs of tangible capital assets	243,110	291,800
	(25,531,632)	(26,719,317)
(Increase) decrease in accounts receivable	(8,988)	59,895
Decrease in prepaid expenses	18,459	45,131
Decrease in accounts payable and accrued liabilities	(257,548)	(88,698)
Increase in accrued vacation pay	32,141	170,584
Net cash used by operating transactions	(25,747,568)	(26,532,405)
Capital transactions		
Purchases of tangible capital assets	(114,442)	(274,559)
Financing transactions		
Net financing provided from General Revenues	25,862,010	26,806,964
Net cash provided (used)	-	-
Cash beginning of year	-	-
Cash end of year	$ -	$ -

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2016

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General Revenues of the Province of Alberta fund both the cost of operations of the Office of the Auditor General and the purchase of tangible capital assets. The all-party Standing Committee on Legislative Offices reviews and approves the office's annual operating and capital budgets, and also appoints the independent auditor for the office's financial statements.

The Office of the Auditor General serves the Legislative Assembly of Alberta and Albertans. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. The auditor general is the auditor of every ministry, department, regulated fund and most provincial agencies. The results of the office's work are included in the public reports of the auditor general presented to the Legislative Assembly.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards, which use accrual accounting. The office has adopted PS 3450 Financial Instruments. The adoption of this standard has no material impact on the financial statements of the office, which is why there is no statement of remeasurement gains and losses.

Other pronouncements issued by the Public Sector Accounting Board that are not yet effective are not expected to have a material impact on future financial statements of the office.

(a) Expenses

The office's expenses are either directly incurred or incurred by others:

Directly incurred

Directly incurred expenses are those costs incurred under the authority of the office's budget as disclosed in Note 5. Pension costs included in directly incurred expenses comprise employer contributions to multi-employer plans. The contributions are based on actuarially determined amounts that are expected to provide the plans' future benefits.

Incurred by others

Services contributed by other entities in support of the office's operations are not recognized and are disclosed in Note 6.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Tangible capital assets

Tangible capital assets are recorded at historical cost less accumulated amortization. Amortization begins when the assets are put into service and is recorded on a straight-line basis over the estimated useful lives of the assets as disclosed in Note 3.

(c) Net debt

Net debt indicates additional cash that will be required from General Revenues to finance the office's cost of operations to March 31, 2016.

(d) Lines of business costs

Schedule 1 provides detail of the office's lines of business costs by government's priority areas.

Note 3 Tangible Capital Assets

	Computer hardware	Computer software	Office equipment	2016 Total	2015 Total
Estimated useful life	3 years	3 years	10 years		
Historical cost					
Beginning of year	$ 1,268,020	$ 241,791	$ 641,519	$ 2,151,330	$ 2,416,867
Additions	94,905	-	19,537	114,442	274,559
Write-downs and disposals	(38,942)	(17,111)	-	(56,053)	(540,096)
	1,323,983	224,680	661,056	2,209,719	2,151,330
Accumulated amortization					
Beginning of year	800,153	224,680	564,054	1,588,887	1,837,183
Amortization expense	210,331	5,264	15,668	231,263	291,800
Write-downs	-	11,847	-	11,847	-
Disposals	(38,942)	(17,111)	-	(56,053)	(540,096)
	971,542	224,680	579,722	1,775,944	1,588,887
Net book value at March 31, 2016	$ 352,441	$ -	$ 81,334	$ 433,775	$ -
Net book value at March 31, 2015	$ 467,867	$ 17,111	$ 77,465	$ -	$ 562,443

Historical cost includes work-in-progress at March 31, 2016 of $70,251 (2015: $159,746).

Note 4 Benefit Plans

The office participates in multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $2,504,333 for the year ended March 31, 2016 (2015: $2,328,839). The office is not responsible for future funding of the plan deficits other than through contribution increases.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299,051,000 (2014: surplus $75,805,000), the Public Service Pension Plan reported a deficiency of $133,188,000 (2014: deficiency $803,299,000) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $16,305,000 (2014: deficiency $17,203,000).

The office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2016, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $29,246,000 (2015: surplus $32,343,000). The expense for this Plan is limited to the employer's annual contributions for the year.

Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses that the all-party Standing Committee on Legislative Offices approved on February 17, 2015. The following table compares actual expenditures, excluding non-voted amounts such as amortization, to the approved budget:

	Voted budget	Actual	Unexpended
Operating expenses			
Professional services	$ 26,619,000	$ 25,531,632	$ (1,087,368)
Tangible capital asset purchases	135,000	114,442	(20,558)
	$ 26,754,000	$ 25,646,074	$ (1,107,926)

Note 6 Expenses Incurred by Others

The office had transactions with other Government of Alberta entities for which no consideration was exchanged. The amounts for the following transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

	2016	2015
Expenses incurred by Alberta Infrastructure office premises	$ 973,764	$ 983,947
Expenses incurred by Service Alberta technology services	$ 167,000	$ 166,000
Expense incurred by the Legislative Assembly Office independent auditor's fee	$ 34,000	$ 33,500
Expenses incurred by Treasury Board and Finance corporate human resources learning centre for training staff	$ 655	$ 694

Note 7 Salary and Benefits Disclosure

The tables below summarize the salary and benefits of the executive management team, the directing mind of the office:

	2016					
	Base salary	Cash benefits[1]	Non-cash benefits[2]	Total	Cashed-out vacation	Total including cashed-out vacation
Auditor General[3]	$ 273,962	$ -	$ 32,887	$ 306,849	$ 38,748	$ 345,597
Assistant Auditor General[4]	208,004	-	59,755	267,759	55,127	322,886
Assistant Auditor General[5]	201,945	-	57,486	259,431	30,153	289,584
Assistant Auditor General[6]	191,901	-	55,623	247,524	-	247,524
Assistant Auditor General[7]	191,901	7,138	44,404	243,443	-	243,443
Chief Operating Officer[8]	191,901	44,579	12,410	248,890	14,649	263,539
Business Leader[9]	100,438	23,332	11,701	135,471	-	135,471
Business Leader[10]	53,084	23,114	30,097	106,295	-	106,295
	$ 1,413,136	$ 98,163	$ 304,363	$ 1,815,662	$ 138,677	$ 1,954,339

	2015					
	Base salary	Cash benefits[1]	Non-cash benefits[2]	Total	Cashed-out vacation	Total including cashed-out vacation
Auditor General[3]	$ 272,916	$ -	$ 69,924	$ 342,840	$ 15,685	$ 358,525
Assistant Auditor General[4]	202,651	-	52,428	255,079	-	255,079
Assistant Auditor General[5]	196,748	-	50,962	247,710	15,076	262,786
Assistant Auditor General[6]	177,123	-	48,684	225,807	20,359	246,166
Assistant Auditor General[7]	177,123	26,568	9,987	213,678	-	213,678
Chief Operating Officer[8]	177,123	40,738	9,830	227,691	-	227,691
	$ 1,203,684	$ 67,306	$ 241,815	$ 1,512,805	$ 51,120	$ 1,563,925

(1) Cash benefits include lump sum maternity payments and payments in lieu of certain employer contributions toward non-cash benefits such as long-term disability insurance and pensions. No bonuses were paid in 2016 and 2015.

(2) Non-cash benefits include the office's share of all employee benefits, and contributions or payments made on behalf of employees including Canada pension plan, employment insurance, employer pension plan, supplementary retirement plans, health care, dental coverage, group life insurance, short-term and long-term disability plans, Workers' Compensation Board premiums, professional memberships and parking.

(3) Non-cash benefits for the auditor general paid by the office include $11,200 (2015: $11,061), being the lease, fuel, insurance and maintenance expenses for an automobile provided.

Note 7 Salary and Benefits Disclosure (continued)

Responsibilities as at March 31, 2016:

(4) Executive Council, Health, Human Services, Legislative Assembly, Seniors and Housing

(5) Infrastructure, Municipal Affairs, Treasury Board and Finance

(6) Advanced Education, Economic Development and Trade, Education, Indigenous Relations, Labour, Transportation

(7) Agriculture and Forestry, Culture and Tourism, Energy, Environment and Parks, Justice and Solicitor General, Service Alberta, Status of Women

(8) Corporate services and office accountability

(9) Systems auditing line of business (hired September 8, 2015)

(10) Financial statement auditing line of business (promoted September 8, 2015 and went on maternity leave January 4, 2016)

Note 8 Comparative Figures

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General and the Chief Operating Officer.

Schedule 1

Legislative Assembly of Alberta
Office of the Auditor General
Lines of Business Costs[1]
Year Ended March 31, 2016

	2016				2015	
	Budget	Budget %	Actual	Actual %	Actual	Actual %
	('000)		('000)		('000)	
Financial statement auditing						
Government Priority Areas						
Alberta's Economic Future	$ 5,836		5,649		$ 6,356	
Families and Communities	5,938		5,118		5,235	
Resource Stewardship	7,939		7,035		7,367	
	19,713		17,802		18,958	
Legislative Assembly and Executive Council	452		422		369	
	20,165		18,224	71%	19,327	72%
Budget reduction[2]	(546)					
	19,619	73%				
Systems auditing						
Government Priority Areas						
Alberta's Economic Future	1,974		1,707		811	
Families and Communities	2,760		3,374		2,888	
Resource Stewardship	2,416		2,436		3,497	
	7,150		7,517		7,196	
Legislative Assembly and Executive Council	100		34		488	
	7,250	27%	7,551	29%	7,684	28%
	$ 26,869	100%	$25,775	100%	$27,011	100%

[1] Audit work is aligned with the government's 2016 priority areas.

[2] Per Standing Committee on Legislative Offices—February 17, 2015.

Schedule 2

Legislative Assembly of Alberta
Office of the Auditor General
Performance Measures Summary
Year Ended March 31, 2016

Performance measures	Actual 2014	Actual 2015	Target 2016	Actual 2016
Relevant auditing				
Percentage of the auditor general's recommendations accepted for implementation[1] *(also Reliable auditing)*	89%	91%	95%	100%
Number of auditor general's recommendations not implemented within three years of acceptance	47	50	0	34
Issue auditor's report on Alberta's consolidated financial statements by June 30 (for the preceding March 31 fiscal year end)	June 20, 2013	June 19, 2014	June 30, 2015	June 23, 2015
Percentage of costs dedicated to systems: financial statement auditing[2] *(also Reasonable cost auditing)*	23:77%	28:72%	27:73%	29:71%
Reliable auditing				
Assessment of compliance with the practice review standards of the Chartered Professional Accountants of Alberta for the office's audits of financial statements[3]	No assessment done	No assessment done	Compliance achieved	Awaiting result of 2016 assessment
Reasonable cost auditing				
Staff turnover rate *(also Reliable auditing)*	18%	15%	Under 20%	16%
Percentage of financial statement audits completed within budget	59%	64%	75%	59%

[1] Acceptance for implementation does not include audit recommendations accepted in principle or under review. For each systems audit, there may be zero, one, two or more recommendations developed from our findings.
[2] The goal is to reach 30:70% by March 31, 2018.
[3] An assessment was done in 2016. The practice review is carried out every three years. The previous assessment was done in 2013.

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